Birmingham City Council

Report to Cabinet

11th February 2025

Title:	**2025/26 TO 2028/29 BUDGET SETTING FOR GENERAL FUND REVENUE ACCOUNT, CAPITAL PROGRAMME AND 2025/26 TREASURY MANAGEMENT STRATEGY AND POLICY**
Lead Member:	Councillor John Cotton, Leader of the Council Councillor Karen McCarthy, Cabinet Member for Finance
Relevant Overview and Scrutiny Committee:	Councillor Sir Albert Bore, Chair Corporate and Finance Overview & Scrutiny Committee
Has this report been shared with the relevant Overview and Scrutiny Committee Chair?	Yes
Report Author:	Fiona Greenway, Director of Finance & Section 151 Officer
Authorised by:	Fiona Greenway, Director of Finance & Section 151 Officer
Is this a Key Decision?	Yes Forward Plan Reference: 013759/2025
Reason(s) why not included on the Forward Plan and confirm who has authorised it to be considered:	Not Applicable
Is this a Late Report?	Yes
Reason(s) why Late and confirm who has authorised it to be considered:	Agreed by Leader that report can be late due to the announcement of the Final Local Government Finance Settlement on 3 February 2025.
Is this decision eligible for 'call in?'	Yes

If 'call-in' has been dis-applied, please provide reason(s) and confirm who has authorised:	Not Applicable
Wards:	All
Does this report contain exempt or confidential information?	No

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1 EXECUTIVE SUMMARY

1.1 In accordance with the City Council's Budget and Policy Framework Procedure Rules, as laid out within the Constitution, only the City Council is able to approve "the overall revenue budget, the allocations of revenue resources to Directorates, the initial capital programme at the commencement of each year, the level of Council Tax and Council Tax Support, the Prudential indicators, the Prudential borrowing limit, the treasury management strategy and policy" (Paragraph 4.2.i.b of Part B of the Constitution).

1.2 Cabinet will consider its draft Budget. The Cabinet's role in relation to these matters will be to consider a draft which will then be presented to the City Council for approval. (Paragraph 6.2.iii of Part B of the Constitution).

1.3 Thus, purpose of this report is to set out the 2025/26 Budget for the City Council in relation to the General Fund, Housing Revenue Account, Capital Programme, and Treasury Management Strategy and Policy, along with the 2026/27 medium-term financial planning context.

1.4 This report is set within the context of the unprecedented financial challenges that the Council has faced over the last two financial years, including the issuance of two Section 114 notices in September 2023, the appointment, by the then Secretary of State for Levelling Up, Housing and Communities, of Commissioners to oversee the Council for a period of up to five years, and the significant savings that were identified and have been delivered throughout the 2024/25 financial year.

1.5 This budget also highlights the wider and significant financial pressures being faced across the Council due to increased forecast demand on services, particularly in relation to Adults and Children's Social Care and Temporary Accommodation. Further to this, there continues to be significant broader economic considerations that must be faced by the Council, and these are contained within this report.

1.6 Throughout the 2024/25 financial year the Council has continued to undertake additional stringent financial management in order to address any remaining issues within the underlying budget, as well as ensuring the savings programme for 2024/25 is delivered, for 2025/26 is robust and deliverable, and for 2026/27 sets the foundation for a reduced and sustainable cost base for the Council over the medium-term financial plan (MTFP). These efforts have been strengthened by work completed by officers and members through the Budget Scrutiny Task & Finish process.

1.7 The Council made a request to the Ministry of Housing, Communities and Local Government (MHCLG) in December 2024 to allow the referendum limit to be increased by 5.00%, to allow the Council to increase Council Tax by 9.99% in 2025/26 (**Appendix 17 refers**). This Council Tax increase would have allowed the Council to balance the 2025/26 budget. MHCLG confirmed on 3 February 2025, as part of the Final Local Government Finance Settlement (LGFS), that the referendum limit would be increased to 7.50%, therefore the Council is being recommended to agree an increase Council Tax to 7.49% in 2025/26.

1.8 The key messages contained within this report are:

a) The Council continues to face unique pressures that exacerbate the already critical financial position, impacting the Council over the medium term (**Sections 5 and 6 refer**);

b) Continued financial management throughout the 2024/25 financial year has ensured that the 2024/25 General Fund Revenue budget has been updated to reflect any in-year pressures which have been identified. This includes updating forecasts, additional pressures, and reflecting the latest savings programme position (**Sections 5 and 6 refer**);

c) The Council continues to embark on a significant programme of savings, which are embedded into an overarching Transformation Plan for the Council. This plan aims to deliver the best outcomes for residents, at Best Value, and help to achieve financial and operational stability for the Council (**Section 7 refers**);

d) After the new savings programme and Council Tax increase of 7.49%, the budget is still not balanced for 2025/26. The Council now needs to write to MHCLG, to request permission to use the existing Exceptional Financial Support of £1.255bn to address the budget deficit, allocating £11.0m of EFS Contingency to address the Budget Gap for the 2025/26 financial year (**Section 15 refers**).

e) The Council acknowledges the multi-year impact on residents and is providing £1.4m of additional Council Tax support (**Section 15 refers**);

1.9 In March 2024, Commissioners made it clear that the Council must present a balanced budget for the next two financial years, 2025/26 and 2026/27, included within the context of a realistic MTFP. On 29 November 2024, Commissioners commented that “In 2025/26, we accept the Council may find it difficult to balance without using one-off resources and/or EFS contingency”. But clarified that the budget must be balanced by 2026/27 without the use of any one-off contributions and keeping EFS requirements within the 2024/25 envelope.

2 COMMISSIONERS' REVIEW

2.1 The Council has managed to produce a balanced budget for 2025/26, but only with the use of exceptional financial support (EFS) and one off resources. This follows a 2024/25 budget gap of £225m that is being funded by asset sales backed by EFS. The council has been greatly assisted by a more generous financial settlement than originally forecast, and without that it would have been facing a sizable budget gap. The financial position has improved, but it is still a long road to financial sustainability.

2.2 The focus of the savings is still too short-term, and efficiencies have not been maximised through service transformation. The progress the Council has made on cross-cutting and corporate savings such as corporate landlord, energy, fleet consolidation and companies has been too slow. The Council has also found it difficult to understand and articulate the capital pressures it faces and reflect these in a robust and funded capital programme.

2.3 The Council has found it very difficult to produce a budget this year and has repeatedly failed to meet its own budget timeline with the MTFP including the draft budget and capital programme originally due to be considered by Cabinet in October 2024. Commissioners recommend that the Council evaluates and learns from this process as the 2026/27 MTFP will be difficult to deliver given the size of the budget gaps of £83m in 2026/27 increasing to £159m in 2028/29 and capital pressures. Particular aspects that need to be improved are;

a) Developing a genuine medium-term plan that will support the transformation of the council services and establish a pipeline of efficiency savings over a four year period. In this context work has been undertaken on future savings so it is disappointing that only £30m of savings are included in 2026/27 which is under 1% of gross expenditure and significantly less than the equivalent figure in last year's budget.

b) Developing an affordable capital programme based on a good understanding of its asset base and robust business cases and sensible prioritisation, together with delivery mechanisms that constrain expenditure to budget. The council needs to understand the condition of its asset base and future demand for capital before it can consider agreeing a robust capital programme.

c) Establishing corporate discipline to deliver the MTFP both to timescale and appropriate quality. This needs to be underpinned by personal accountability across the organisation.

2.4 Commissioners remain concerned that the Council will struggle to fully deliver the planned 2025/26 and 2026/27 savings proposals not least because the Council still lacks the corporate capacity and capability and basic working practices to support such a large programme of work. The savings also carry significantly higher, cumulative delivery risks compared to the 2024/25 savings which in many cases focused on more straightforward savings, such as the deletion of vacant posts. This is an area that Commissioners would like to work closely with the Authority on.

2.5 The risk of savings non delivery is one of many risks set out in the budget report. Commissioners are comfortable with the level of contingencies and reserves but reiterate the need for the council to pro actively manage these risks and not just react to the impact of the risk occurring. It is positive the Council remains on track to contain the financial risks within the EFS of £1.25bn. However, there is no doubt risks are increasing hence the Direction to the council to develop a further £250m of asset sales, on top of the current programme of £750m. This further programme will provide a contingency if required and if overall risks are well managed the council will not need to go ahead with this programme of additional asset disposals or use the receipts to fund the capital programme. In the meantime, Commissioners note that there is still c£132m of asset sales unidentified at present to meet the original target.

2.6 Commissioners do recognise the hard work of finance staff over the last year. There are some aspects where there have been real improvements such us the due diligence process and prudence of planning assumptions. These improvements need to be consolidated and built upon. Finally, Commissioners again remind Budget holders that delegation to spend outside approved budgets does not exist and requires specific authority. Since, the S114 notice was first issued, it is clear that compliance is an issue in this Council and cannot be allowed to continue.

Annex

2.7 This Annex includes an extract from a letter dated 29 November 2024 from the Finance Commissioner to the Council Leader and Managing Director setting out Commissioners expectations for the 2025 MTFP and our assessment (in italics) of whether the Council met these requirements.

2.8 Will be balanced by 2026/27, without the use of any one-off contributions

Not met. Budget balanced in 2025/26 with the use of non recurring resources and not balanced in 2026/27 or later years. In 2025/26 non recurring resources of £40m (Public Health, General Fund Balance, Reserves for Social Care and Exceptional Financial Support in the form of Capitalisation) are being used to balance the budget.

2.9 Will not require any additional exceptional financial support (EFS) outside of the 2024/25 envelope

Met. Though EFS required to balance 2024/5 budget.

2.10 Will be a genuine MTFP showing the position for four years and in detail for the first two years

Not met. Whilst the MTFP covers a four-year period it focuses on 2025/26 with only limited savings in 2026/27 and none in later years. There is also a large budget gap of £83m in 2025/26 that grows in later years.

2.11 Will be based on credible and evidence-based assumptions

Met. Improvements in savings due diligence and establishing prudent budget assumptions. Room for improvement re capital programme.

2.12 Will ensue the savings due in 2025/26 are supported by detailed and robust delivery plans that have been through a due diligence process

Met. Although as set out in the report there is considerable delivery risk that needs to be managed.

2.13 Will maximise efficiencies and transformation savings and the MTFP will support the service transformation objectives of the Council. In doing so, it should set out savings from many of the themes Commissioners have stressed since their arrival such as the consolidation and the transformation of services. The MTFP must articulate this improvement journey, and the Council must set out its approach to transformation for services both back-office and front-line

Not met. The MTFP could and should include more efficiencies and transformation savings. At present it does not maximise savings from many themes stressed by commissioners including consolidation of services and energy.

3 RECOMMENDATIONS

That Cabinet:

3.1 Agrees and recommends to the City Council for approval at its Council Tax-setting meeting:

a) The 2025/26 draft General Fund net Revenue Budget of £1,042.606m (**Section 8 and Appendix 2 refer**);

b) The 2025/26 and 2026/27 programme of proposed savings (**Section 11 and Appendix 1 refer**);

c) The 2025/26 Reserves & Balances Policy (**Section 14 and Appendix 4 refer**);

d) The 2025/26 Dedicated Schools Grant (DSG) funding allocation for Schools (**Section 17 and Appendix 7 refer**);

e) The 2025/26 to 2028/29 Capital Programme and Capital Strategy (**Section 18, Appendix 8 refer**);

f) The 2025/26 Treasury Management Policies and Strategy (**Section 19, Appendix 9 refer**);

g) The Corporate Equality Impact Assessment (**Appendix 12 and 13 refers**), as well as the Equality Impact Assessments for individual savings proposals at https://www.birmingham.gov.uk/EqualityImpactAssessments; and

h) The draft Council Tax requirement (**Appendix 3 refers**).

3.2 Agrees to:

a) Note that the Budget Proposals in this report include the removal of specific savings from 2024/25 totalling £13.6m (including planned savings in that programme for 2025/26 and future years) (**Section 11 refers**);

b) Delegate authority to the Section 151 Officer, in consultation with the Cabinet Member for Finance, to use the Contingency Budget for those matters which may require an urgent response, subject to compliance with procurement rules. Any delegated decision will be reported through the normal procedures as set out in the Constitution and subsequent reporting via budget management reports to Cabinet;

c) Receive at least monthly monitoring on the proposed savings and the overall budgetary performance of the Council;

d) Direct the Corporate Leadership Team (CLT) to progress the savings, which are set out in **Appendix 1**, following agreement of the City Council;

e) Note that the 2025/26 Housing Revenue Account (HRA) budget, and the Business Plan, as approved by Cabinet on 21 January 2025, will be shared with City Council, for information, on 25 February 2025;

f) To apply the Council's Exceptional Financial Support of £1.255bn to enable the City Council to set a balanced budget for 2025/26. In particular, to include a **7.49% increase in Birmingham City Council's Council Tax element**;

g) Approve the schedule of fees and charges, approving those with the delegations to Cabinet, and recommends all other fees and charges to the City Council meeting on 25 February 2025 (**Appendix 11 refers**);

h) Approve carrying over any unspent budget allocation from 2024/25 from the Flexible Use of Capital Receipts Policy into 2025/26 for the same projects;

i) Delegate authority to the Section 151 Officer, in consultation with the Leader and Cabinet Member for Finance, to make any amendments or corrections to the 2025/26 Draft Budget between now and submission to City Council on 25 February 2025; and

j) Note the Response to Budget Scrutiny Task & Finish Group, specifically the responses outlined at **Appendix 16**, and agrees to take into account the recommendations in consideration of the draft 2025/26 budget.

KEY INFORMATION

4 Strategic Context for Birmingham City Council

Background

4.1 As part of budget setting for the 2024/25 financial year, prior to the application of savings the 2024/25 budget started with a £375.6m budget gap. The Council's savings programme of £149.8m, agreed at City Council on 5 March 2024, reduced this budget gap to £225.9m.

4.2 On 27 February 2024, the Leader of the City Council received confirmation from Simon Hoare MP, Minister for Local Government, that the then Department for Levelling Up, Housing and Communities (DLUHC) was minded to approve a capitalisation direction of a total not exceeding £1,225.1m for the financial years 2020/21 to 2024/25.

4.3 Following receipt of this minded to letter, a supplementary report was presented to City Council on 5 March 2024 confirming the receipt of Exceptional Financial Support (EFS) from the then DLUHC. This EFS provides the ability to capitalise revenue expenditure and is unfunded, requiring capital receipts generated by asset disposals. These requests were twofold:

a) Permission to increase the Council Tax level above the referendum limit to 9.99% and to support this, the Council will review and revise the Council Tax Support Scheme to offset the potential impact to citizens; and

b) A formal application for a Capitalisation Direction of £1.255bn and 'minded to' letter to cover the Equal Pay accounting liability, the costs involved in the redundancy scheme, and support to deliver a balanced budget for the 2024/25 financial year.

4.4 Following confirmation of the EFS, this enabled the City Council to set a balanced budget and commence the journey to rebuild a credible and sustainable financial plan for the medium term.

4.5 The presented budget was approved by City Council on 5 March 2024, allowed the commencement of delivery against a significant savings programme of £149.8m of savings during the 2024/25 financial year.

4.6 As outlined in the papers presented on 5 March 2024, before identified savings proposal there is a £143.7m budget gap for the 2025/26 financial year. In the papers presented, proposals for up to £76.3m of savings were presented, with a further £67.4m still to be identified.

Asset Disposals

4.7 The EFS request allows the Council to capitalise the costs of the Equal Pay accounting liability, the costs involved redundancy schemes to enable delivery of savings, and support to present a balanced budget for the 2024/25 financial year. The Council intends to fund this through the application of capital receipts from the sale of assets.

4.8 As such, the Council has developed a programme of asset sales which addresses the Council's capital receipts requirement. The value of this programme is £750m of receipts to be delivered across the 2024/25 (£500m) and 2025/26 (£250m) financial years. The Council has also been tasked to identify a further £250m of receipts achievable during the 2026/27 financial year. This would bring the total required asset sales to a total of £1bn. These assets would be earmarked for sale in the event that there is an additional requirement for Capital Receipts to cover potential liabilities which have been refreshed over a multi-year Medium Term Financial Plan. If these risks do not materialise, and the potential cost of Exceptional Financial Support falls within the current Capital Receipts envelope, this additional funding would not be required.

4.9 Capital receipts will be applied in a priority order, in order to address the urgency of requirements in relation to the EFS request. That is, the Council's budget gap for the 2024/25 financial year must be funded through the first round of capital receipts, that is a value of £225.9m. Next, the Council must fund the costs involved in redundancy schemes which are required to deliver savings required to balance the budget for the 2024/25 financial year.

4.10 After application of capital receipts against these two items, can the Council apply remaining capital receipts to the costs involved with Equal Pay. This demonstrates the need for a significant programme of capital receipts, even in the absence of equal pay, but also in to the 2025/26 and 2026/27 financial years.

4.11 As of the end of January 2025, the Council has achieved £261m of the targeted receipts, with a potential further £15m of receipts associated with assets sales that could complete by 31 March 2025. If the required capitalisation costs as at the end of 31 March 2025 exceed the value of assets sold, then the Council will need to borrow to cover these costs. Noting that any additional borrowing would have a General Fund impact, negating the effectiveness of isolating EFS to capital funding.

4.12 In addition to the projections up to 31 March 2025 the Council has legal contracts exchanged on a further £26m of asset sales, with a further £66.6m of receipt value under offer and bidding currently being invited on a further £174m. In addition, a further £75m of receipt value have been identified and these asset sales are being prepped for market. Therefore, as at the end of Jan 2025, a total of some £618.2m of receipt value has either been achieved or identified, this leaves a remainder of some £131.8m still to be identified in order to meet the £750m target by 31 March 2026 which is considered achievable.

4.13 As part of the ongoing asset identification process to inform the disposals programme, any associated receipts that may be profiled to be achieved from asset sales beyond 31 March 2026 will be captured against the £250m ask for 2026/27 but as these assets have, to date, yet to be identified and will need to represent additionality over and above the £131.8m of asset sales still to be identified for completion in 2025/26 there is more risk inherent in achieving this stretch target.

Medium-Term Financial Strategy (MTFS) Principles

4.14 As agreed by Cabinet on 23 July 2024, a set of medium-term financial strategy principles were developed in order to provide a stable and sustainable financial footing for the Council. These provided a framework within which the budget setting process for 2025/26 was completed.

4.15 One of the three aims of the Council's Improvement and Recovery Plan (IRP) is to be a financially sustainable Council. That is, to address the exceptional financial challenges and risks facing the Council and achieve a stable and sustainable financial position and Medium-Term Financial Plan.

4.16 As such, the principles agreed for the Medium-Term Financial Plan covering the period 2025/26 to 2028/29 are:

a) The Medium-Term Financial Plan must balance for the first two years, being 2025/26 and 2026/27, and must be presented as early as practicable in the 2025/26 financial year to allow timely implementation and review;

b) There must be a credible four-year financial plan with clear and transparent assumptions that reflect the Council's financial situation over the medium term;

c) Reliance on Exceptional Financial Support (EFS) from Ministry of Housing, Communities and Local Government (MHCLG, previously DLUHC) over the medium term is not a feasible option, risks compromising the Council's financial independence and credibility, and may have consequences for Treasury forecasts in future years;

d) There will be no reliance on reserves, except for the use of reserves earmarked for specific purposes;

e) There will be no new prudential borrowing, until the Council's financial position has sufficiently improved;

f) All areas of the Council will be included within the scope of efficiencies and savings. This includes, but is not limited to, thoroughly reviewing all grants to ensure they are utilised effectively and aligned with strategic priorities. The scale of savings across the Council is so significant that no one service can be preserved in totality;

g) Council Tax and Business Rates collections must be maximized using all available tools, and should inform decisions on Council Tax levels across the four-year MTFP;

h) Growth assumptions in relation to business rates will be at 0%, and will only be included once growth is evidenced and realized. This also applies to assumptions about housing supply impacts;

i) The revenue implications of Capital will be minimised, and all capital projects, regardless of their funding source (including Enterprise Zone and Investment Zone projects), must be assessed within the same financial framework as other Council priorities;

j) Demand led pressures must be evidenced and documented prior to approval of funding. A rigorous evidence base and centralised control will ensure funds are released only when justified, enhancing accountability and preventing overspending;

k) There will be no assumption that Council funding will replace expiry of grants, and all grants must have clear exit strategies prepared well in advance of their ending to avoid reliance on the General Fund; and

l) The Council is no longer in a position to be the lender of last resort, nor underwrite or guarantee financial arrangements unless explicitly approved with a robust risk assessment and financial justification.

4.17 These principles have been presented and updated to strengthen the Council's financial planning and governance arrangements. Due consideration in all financial decision making should be given to these principles.

5 Financial Position – National Context

5.1 There are a significant range of challenges that this Council, and all public bodies, are currently facing.

a) Service pressures – a Local Government Association survey ran in September and October 2024 noted that nearly one in four councils in England believe it is "likely" that they will have to apply for "emergency government bailout agreements to stave off bankruptcy in the next two financial years (2025/26 and 2026/27)". This is due to inflation and wage pressures alongside rising demand for services. Social care authorities identified children's social care, adult social care, SEND services, school transport, and homelessness as the top five pressures;

b) Uncertain central government funding – the Council's net revenue budget is funded from four main sources: Business Rates, Council Tax, Government grants and fees & charges. Of these:

   i. While Council Tax and Business Rates are also dependent on ratepayers' ability to pay, there are uncertainties over these funding streams in future. This includes further policy detail on future allowable Council Tax increases, Business Rates retention of income or reliefs (although the Council, along with the West Midlands Combined Authority, has signed an agreement to extend full retention of business rates for another ten years; approved by Cabinet on 14 November 2023) or any review of how funding is distributed across local government.

   ii. Government Grants – the Provisional Local Government Finance Settlement has provided clarity for the 2025/26 financial year only. We welcome confirmation that there will be a multi-year settlement in time for setting the 2026/27 budget.

   iii. Fees and Charges for the wide range of Council-run services are dependent on activity levels and residents' ability to pay.

c) UK Economy – The national economic context continues to face significant uncertainty in light of high inflation, lags in growth, and the ongoing impact of Treasury policy decisions. Persistent inflation has not only driven up service delivery costs but also increased wage demands, intensifying pressures on local government budgets. Economic growth forecasts remain subdued, limiting the ability of Central Government to expand funding allocations to councils. Furthermore, decisions by the Treasury, including interest rate policies and potential fiscal tightening, may exacerbate pressures on local authorities, requiring continued caution in planning financial commitments.

d) Global Economy – More broadly, the global financial context is marked by heightened instability. Ongoing geopolitical conflicts, shifts in political power, and the potential for new trade tariffs imposed by major economies present risks to global supply chains and commodity prices. These developments, alongside fluctuating energy markets, may lead to further volatility in inflation and interest rates, directly impacting borrowing costs and the financial stability of local authorities. The Council must carefully monitor these global factors, which have significant implications for both operational budgets and the delivery of long-term capital programmes.

6 Financial Position – The Local Context for Birmingham

6.1 The Council's financial position remains extremely challenging. The Council is under statutory intervention, with Commissioners appointed by the Secretary of State for Levelling Up, Housing and Communities. The Council faces a number of significant risks that are detailed below, further risks are included in the Section 25:

a) The **potential Equal Pay liabilities**, that led to the issuance of a Section 114 (3) notice in September 2023. The Council must continue to focus on limiting the growth of any liabilities by implementing a new system of pay and grading to remove any growth of current and new future potential Equal Pay liabilities and do so by the 1 April 2025 (which is the target date assumed by current estimates); and finalise settlement for any potential existing Equal Pay liabilities.

b) More broadly, the issues with the **Oracle ERP system** continue to have a wider impact on this budget, similar to prior years. Whilst the finance system is working practically in many instances (e.g. paying staff, suppliers), difficulties remain around the integrity of the finance ledger. At the most basic level, I still have limited confidence to place reliance on the most elementary financial information from the system. The flawed ERP implementation eroded the very foundations upon which sound financial management could have been based. As a result, I am only able to place assurance on the information produced manually, off system, to provide a sound basis for decision making. This makes it difficult for Leadership and Finance Business Partners to forecast future demand and cost pressures in a live and active manner. There continue to be issues around fundamentals of a financial controls framework embedded into Oracle, and this is being addressed to return the Council to a sound financial footing.

c) While the Section 114 (3) notice issued in September 2023 was issued as a result of potential Equal Pay liabilities, the Council was already facing a significant **in-year budget gap**. This budget gap increased during the 2024/25 budget setting exercise as result of the rebasing work to review and address flaws in the existing budget pressures and budget forecasts for the 2024/25 and 2025/26 financial years. Despite best efforts, additional pressures have arisen during the 2024/25 financial year which were not included within this rebasing exercise, which once again increased the Council’s budget gap, this was outlined in the July 2024 Section 151 Officer Update to Cabinet. To the best of the Council’s knowledge, and as confirmed in writing from Directors, all known pressures and issues have been reflected in the budget for 2025/26.

d) As outlined in multiple Section 151 Officer updates to Cabinet, if the Council is to live within this budget, and not require further EFS from Government in future, a critical part of this will be to **deliver on the planned programme of asset disposal**. Commissioners have been clear that our objective must be to have no new borrowing for the Capital Programme by the end of the 2025/26 financial year, and to live within the means of the EFS settlement agreed in 2024/25. The scale of the disposals programme is extremely large and there is a risk, particularly in the current economic environment, that the Council will find it difficult to secure sales at favourable rates. To date, the Council is working towards sales of the quantum required, and there must be focus on delivering the remainder of the programme to generate sufficient capital receipts. The current size of the Council’s asset base for the proposed sale of assets, to generate the required capital receipts to fund EFS, is limited by the size of the operational asset base. This means that operational assets, such as schools, parks, and highways, cannot be sold to generate receipts. As such, concentrated Council activity is required to minimise the value of the capitalised expenditure through: delivery of all identified savings for the 2025/26 and 2026/27 financial years; identification of new savings to close the current budget gap in 2026/27; implementing a new pay and grading structure as soon as possible; and, delivering a negotiated settlement which delivers Best Value in relation to potential Equal Pay liabilities.

e) The Council continues to operate under a **Highways PFI arrangement** while discussions with the Department for Transport (DfT) are ongoing. This arrangement has significant budgetary implications, as any changes to the terms of the agreement could impact the financial assumptions underpinning the 2025/26 budget. Until these discussions are concluded, the Council faces continued uncertainty about the costs and long-term implications of the Highways PFI.

f) The Council's **Net General Fund Budget does not decrease over the period of the MTFP**, and Council's budget gap continues to grow. Without demonstrating the ability to deliver savings which fundamentally transform the Council's cost base in order to deliver services to residents, the Council continues to miss the mark of Best Value for residents. It should be an objective for future years that the Council's Net General Fund Budget should, as a minimum, remain flat across multiple years of the MTFP.

6.2 As a result of the factors describe in this Section, the Council faces a challenging budget to deliver 2025/26, and a budget gap for 2026/27 and beyond. Further details on risks can be found in **Section 20**, and detail on the robustness of this budget and the local financial context can be found within the Section 25 report of the Section 151 Officer which is included in the papers for this Cabinet meeting.

7 Transformation Plan

7.1 The Council's transformation approach will be closely tied to delivery of its Medium-Term Financial Plan (MTFP), with a focus on delivering efficiencies and embedding cultural and operational changes to achieve sustainable savings consistently across the organisation.

7.2 The Council is still in the early stages of its improvement and transformation journey, following the publication of its Improvement and Recovery Plan (IRP) in April 2024. The IRP focused on addressing critical issues such as Oracle, Equal Pay, and the Budget, alongside immediate improvements required within core citizen facing services.

7.3 The priority for the Council continues to be on stabilising its finances and improving the effectiveness of core services. Alongside this the reimplementation of the Oracle ERP system will remain the focus of transformation efforts over the next financial year. Once these areas are further progressed, and specifically once Oracle is re-implemented in 2026, the Council will be in a position to intensify broader transformation work and deliver the longer-term vision for a smaller, leaner and more effective organisation.

7.4 A key enabler of transformation is the reimplementation of the Oracle ERP system, which will enhance financial and operational management, streamline processes, and support a systematic change in ways of working through self-service capabilities across finance, HR, and procurement. The delivery of Oracle is a significant undertaking and will remain the priority transformation programme for the Council in 2025/26. Other transformational activities will need to work around the framework the programme has in place, including a change freeze process which will impact structural changes the Council is able to make through to go-live in 2026.

7.5 Recent structural changes, including a top-tier restructure and permanent senior appointments, are aligning directorates to a vision of a smaller, leaner organisation, with stabilised leadership capacity. This will strengthen and enable the Councils ability to deliver transformative change.

7.6 Centralisation and consolidation of corporate activities, such as customer contact and business support functions, are underway to eliminate duplication and deliver significant efficiencies, with plans to further rationalise services aligned to the implementation of Oracle.

7.7 Cultural change is a priority in the Council, with efforts ongoing to embed accountability and performance through refreshed behaviours, a new appraisal framework linked to delivery outcomes, and extensive staff engagement through surveys and forums such as the Colleague Community.

7.8 The Council is making operational efficiencies through consolidation of its corporate landlord function, rationalisation of its property portfolio, and digital transformation initiatives such as automation in customer contact centres, which are being delivered through the Digital Foundry initiative and are already delivering savings and improving service outcomes.

7.9 Service transformation within delivery directorates continues to demonstrate measurable progress, with improvements in areas such as waste services redesign, fleet modernisation, and enhancements to temporary accommodation services, reflecting the Councils commitment to improve core service delivery.

7.10 Governance and accountability are being strengthened through refreshed protocols, improved key performance indicators, and enhanced oversight mechanisms, to ensure effective management and monitoring of transformation activities.

7.11 The development of the BCC Target Operating Model (TOM) will align transformation efforts into a single framework that addresses service delivery, technology, governance, and financial management, to support a unified approach to change.

7.12 The TOM will provide a clear vision for what the Council wants to become through the delivery of transformation and what this means for the way it provides and delivers services.

7.13 The TOM will give the Council a clear understanding of the rough order of magnitude of the financial and non-financial benefits it can achieve through implementing its TOM, which will support a credible medium term financial plan.

7.14 The TOM will also provide clarity on the delivery pathway through which the Council can start to implement its TOM. Workstreams and programmes will be structured aligned to agreed improvement and transformation priorities. Successful delivery of Oracle is the ultimate priority for BCC and the remaining activities will be sequenced in line with this. Centralisation of activity across the Council also needs to be accelerated and delivered to maximise benefits of consolidation.

7.15 Included within the TOM will be the Councils approach to Early Intervention and Prevention, and how it can reduce demand through proactive service delivery and working more closely with partners and the voluntary sector to deliver services. This includes repurposing buildings and assets such as libraries and providing better support for people in their homes.

7.16 Included within the TOM will be the Councils approach to Early Intervention and Prevention, and how it can reduce demand through proactive service delivery and working more closely with partners and the voluntary sector to deliver services. This includes repurposing buildings and assets such as libraries and providing better support for people in their homes.

7.17 A Steering Group will be stood up consisting of relevant leads and accountable officers. This Steering Group will be the key decision-making forum which is responsible for design and delivery of transformation centred around delivery of the BCC Target Operating Model and major programmes such as Oracle.

7.18 Aligned to development of the TOM, the Corporate Portfolio Management Office (CPMO) will evolve as the central improvement and transformation management office capability. The CPMO will grip and drive improvement and transformation work across the Council.

7.19 The Council will finalise its TOM and refresh its IRP to align with a new Corporate Plan in April 2025, ensuring transformation initiatives contribute to the Councils strategic objectives and long-term financial sustainability through a single integrated improvement and transformation plan.

7.20 Further to this, individual Directorates have been developing a range of savings proposals which deliver Service specific improvements focussing on investing in the Council, driving change, and delivering better outcomes for residents. These changes are summarised on a Directorate basis in **Appendix 18**.

8 2025/26 to 2028/29 Draft General Fund Revenue Budgets

Context

8.1 During 2024 the Council has published its provisional outturns for 2023/24 and 2023/24, this must be taken into account when setting the MTFP. In addition, the 2024/25 Quarter 2 position was reported.

8.2 As reported to Cabinet on 14 May 2024, the Council confirmed a General Fund revenue outturn for the **2022/23** financial year as an **overspend of £66.2m** before the corporate use of reserves. This overspend was a minor improvement on the Month 10 2022/23 financial year, reported to Cabinet on 21 March 2023.

8.3 As reported to Cabinet on 21 January 2025, the provisional General Fund revenue outturn for **2023/24** is an **overspend of £76.5m** before the corporate use of reserves. Within Directorates the total overspend is £91.0m.

8.4 The Section 151 Officer has been assured that the causes of the overspends in Directorates have been resolved through the rebasing exercise carried out as part of setting the 2024/25 budget. The causes of the overspends were rectified in the 2024/25 budget through pressure bids and inflation, these have also been reflected in the 2025/26 budget. This is consistent with the latest 2024/25 Quarter 2 budget monitoring forecast, the Council is forecasting to spend within the agreed budget envelope. If this does not hold true, changes will need to be made to the 2025/26 base budgets.

8.5 As reported to Cabinet on 10 December 2024, the Council's General Fund Revenue Budget at Quarter 2, was projected to underspend by £10.9m. It should be noted that the 2024/25 General Fund Budget includes a £225.9m capitalisation direction, which was approved by central government as part of the budget-setting process in March 2024.

8.6 The budget presented in this report is for the next four financial years. The intention for the 2025/26 budget, and the 2026/27 budget, is to stabilise the Council's financial position and enable medium-term financial planning outlook to be set out. It is critical for the Council to demonstrate that it can set – and live within – proposed expenditure budgets over the next two years, particularly with regard to the delivery of the proposed new savings programme.

8.7 At present, the Council cannot set a lawfully balanced budget without a minded-to letter, issued in response to the Councils formal request to Ministry of Housing, Communities and Local Government (MHCLG) for Exceptional Financial Support.

8.8 The requests for Exceptional Financial Support have been two-fold:

a) For permission to **increase Council Tax** above the Government's current referendum threshold of 4.99% to 9.99%; and

b) For **a Capitalisation Direction**, which enables the Council to treat revenue costs as capital costs. This was requested in order to alter the phasing of the budgeted envelope of £1.255bn, recognising the costs of delivering redundancies in relation to savings across two financial years (2024/25 and 2025/26), and to retain the potential to utilise the EFS Contingency for items which could not be foreseen as part of the MTFP process. This is set out below:

EFS Request	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)	Total (£m)
Budget Gap	0.0	0.0	0.0	0.0	225.9	0.0	225.9
Redundancy Costs	0.0	0.0	0.0	0.0	20.0	80.0	100.0
Potential Equal Pay Liability	288.4	109.5	172.2	0.0	245.2	-	815.3
EFS Contingency	0.0	0.0	0.0	0.0	0.0	100.0	100.0
TOTAL	**288.4**	**109.5**	**172.2**	**0.0**	**491.1**	**180.00**	**1,241.2**

8.9 On 3 February 2025, the Minister of State for Local Government and English Devolution, Jim McMahon MP, communicated an outcome to the Council's letter. His letter stated that the Council would receive a "bespoke referendum principle for Birmingham City Council of 7.5%" for the 2025/26 financial year, which is 2.5% above the standard referendum limit. In light of the reduced Council Tax referendum limit, the Council will request an updated EFS settlement to reflect the need to balance the City Council budget for 2025/26.

8.10 **Table 1** shows the breakdown of the 2025/26 Budget and the forecast for 2026/27 to 2028/29. This shows that the 2025/26 Budget is unbalanced by £11.0m, and

2026/27 has a £83.1m gap. The indicative gap for 2027/28 is £127.9m and for 2028/29 is £158.9m. These indicative budget gaps are **cumulative**.

Budget Scrutiny Task & Finish Group

8.11 As in 2024/25 Budget Setting process, a key stage in the process is scrutiny and challenge of the Cabinet MTFP and budget proposals.

8.12 From September 2024 through to January 2025 the Councils Budget Scrutiny Task & Finish Group held several meetings to consider the MTFP and budget proposals set out in this report. **Appendix 15** sets out the recommendations of the Budget Scrutiny Task & Finish Group, to be duly considered by Cabinet ahead of reporting to City Council on 25 February 2025.

8.13 **Appendix 16** provides detailed responses to the Budget Scrutiny Task & Finish Group recommendations and Cabinet is asked to note these responses and agree to take into account the recommendations and consideration of its draft 2025/26 Budget.

Table 1 – 2025/26 to 2028/29 Draft General Fund Revenue Budgets

Directorate	2024/25 Current Budget £'000	Inflation & Pay Award 2025/26 £'000	Variations +/- £'000	Savings 2025/26 £'000	2025/26 Net Base Budget £'000	2026/27 Net Base Budget £'000	2027/28 Net Base Budget £'000	2028/29 Net Base Budget £'000
Adult Social Care	466,651	36,818	31,169	(43,156)	491,482	523,490	569,724	618,214
Children and Families	373,553	22,137	28,672	(41,372)	382,990	408,269	440,834	474,997
City Housing	34,057	2,884	11,796	(18,200)	30,538	27,462	24,984	21,717
City Operations	203,784	10,284	13,591	(20,470)	207,189	214,769	229,802	248,006
COO, Finance, People Services, Legal & Governance	131,365	9,843	17,181	(16,874)	141,515	125,939	124,674	128,683
Place, Prosperity and Sustainability	12,976	2,162	5,597	(5,194)	15,541	14,769	16,356	17,787
Strategy, Equalities and Partnerships	6,951	442	(717)	(1,654)	5,023	5,005	5,132	4,346
Total Directorate Net Expenditure (excluding Central Support Costs)	**1,229,337**	**84,571**	**107,290**	**(146,920)**	**1,274,278**	**1,319,705**	**1,411,506**	**1,513,749**
Central Support Costs	(6,890)	0	(9,980)	0	(16,871)	(16,673)	(17,259)	(17,917)
Total Directorate Net Expenditure	**1,222,447**	**84,571**	**97,310**	**(146,920)**	**1,257,408**	**1,303,032**	**1,394,248**	**1,495,831**
Corporately Managed Budgets	(71,577)	1,278	(142,519)	(1,984)	(214,801)	(131,209)	(133,516)	(159,798)
Total General Fund Budget	**1,150,870**	**85,849**	**(45,209)**	**(148,904)**	**1,042,606**	**1,171,823**	**1,260,732**	**1,336,033**
Funding	(924,991)	0	(106,601)	0	(1,031,592)	(1,088,766)	(1,132,795)	(1,177,112)
Net Budget Gap	**225,879**	**85,849**	**(151,810)**	**(148,904)**	**11,014**	**83,057**	**127,937**	**158,922**
Exceptional Financial Support (EFS) requested	(225,879)	0	214,865	0	(11,014)	0	0	0
Net Budget	**0**	**85,849**	**63,055**	**(148,904)**	**0**	**83,057**	**127,937**	**158,922**

Note that throughout this report the breakdown of Council finances by Directorate will vary in the naming convention of each Directorate. This is due to recent changes in the Councils organisation structure. Due to the timing of these changes, they have not yet been reflected onto the Oracle system and therefore many of the tables below define Directorates by the previous Council organisation structure. This primarily impacts corporate functions, and not front-line services.

8.14 These budget estimates are calculated by taking the current budgets for the 2024/25 financial year and forecasting for the following items:

a) Inflation and Pay award – assumptions about future cost pressures;

b) Variations – these include a range of expenditure and income pressures; and

c) Savings – the proposed savings programme for approval for the 2025/26 year and beyond.

8.15 For 2026/27, at present this budget is not balanced without identification of additional savings. The 2026/27 budget estimates include £29.5m of savings as a result of the existing savings programme and new savings put forward for the 2025/26 budget. The Council must continue to focus on building a sustainable and credible medium-term financial plan through identification of additional and recurring savings to reduce the Council's underlying cost base.

9 Inflation and Pay award

9.1 Inflation assumptions are calculated on an individual cost centre basis, depending on the type of budget. There are three broad categories of inflation:

a) Pay Inflation – the estimated pay increase for Council officers for the 2025/26 financial year;

b) Contract Inflation – the specific assumptions made for particular types of purchase, including adults and children's social care packages; and

c) General Price Inflation – covering the purchase of general goods and services.

9.2 The budget pressures are calculated by updating budget forecasts for the MTFP financial years, compared to the forecasts for those years in last year's budget.

Pay Inflation

9.3 The pay assumptions for the MTFP financial years are:

Table 2 – General Fund Pay inflation assumptions

	2025/26	**2026/27**	**2027/28**	**2028/29**
Pay award – in base budgets	4.0%	3.0%	3.0%	3.0%
Assumptions used in the 2024/25 Budget Report	*2.0%*	*N/A*	*N/A*	*N/A*

9.4 An additional contingency is also held to mitigate the potential costs of a new employee pay and grading structure. These contingencies are held in the central Contingency Budget.

9.5 The base pay award of 4.0% in 2025/26 and 3.0% from 2026/27 to 2028/29 are assumed to be slightly above future forecast general inflation, see **Table 4** below. The 2024/25 pay award was around 3.8%; the budget assumes a broadly similar settlement for 2025/26 before reducing (as inflation reduces) over the following years.

Contract Inflation

9.6 These assumptions relate to a range of purchases where costs are not directly tied to general inflation but to particular contractual terms. This includes payments to third party providers to provide adults and children's social care services, for which the assumptions of future contract inflation are:

Table 3 – General Fund Contract inflation assumptions

	2025/26	2026/27	2027/28	2028/29
Adults Social Care packages – used in the 2025/26 budget	7.1%	4.9%	4.8%	4.7%
Assumptions used in the 2024/25 Budget Report	*5.6%*	*N/A*	*N/A*	*N/A*
Children's Social Care third party payments – used in the 2025/26 budget	5.2%	5.2%	5.1%	5.1%
Assumptions used in the 2024/25 Budget Report	*5.6%*	*N/A*	*N/A*	*N/A*

9.7 Inflation forecasts have been reviewed with finance teams and service leads, based on the latest analysis of future care package costs. The inflation forecasts shown above are the broad average across a range of spending categories.

General Price Inflation

9.8 These assumptions relate to a range of general goods and service budgets. For this budget, the Bank of England Forecasts for November 2024 are being used:

Table 4 – General Fund - General Price Inflation Assumptions

	2025/26	2026/27	2027/28	2028/29
April-June	2.6%	2.4%	1.9%	N/A
July-September	2.8%	2.3%	1.9%	N/A
October-December	2.7%	2.2%	1.8%	N/A
January-March	2.6%	2.1%	N/A	N/A
Average CPI inflation (based on Bank of England November 2024 forecasts)	**2.7%**	**2.3%**	**1.9%**	**N/A**
Assumptions used in the 2025/26 budget	**2.7%**	**2.3%**	**2.0%**	**2.0%**
Assumptions used in the 2024/25 Budget Report	*2.0%*	*N/A*	*N/A*	*N/A*

10 Budget Variations – Expenditure Pressures

10.1 Budget variations cover a range of items, included expected increases in expenditure and forecast reduction in income targets. These are laid out below.

10.2 Key pressures:

a) Adults Social Care – increased forecast demand for social care packages of £15.6m;

b) Children's Social Care – increased demand and complexity of care packages for children of £29.7m, to be added to the contract budget for the Birmingham Children's Trust for the 2025/26 year;

c) City Housing – increased forecast demand for temporary accommodation places of £11.6m;

d) City Operations – £12m removing original City Operations saving; £4.6m of additional food waste collections in Street Scene;

e) Place, Prosperity & Sustainability – £5m budget pressure due to lost income from asset sales (those earmarked for the Council's programme of asset disposals); and

f) Recharges – In addition, there are other budget variations shown as the Council has reviewed and repurposed recharges, particularly from the Digital division. These recharges were previously shown as specific costs to directorates (and income for the Digital division). These have now been removed from budgets and included within the Council's Central Support Cost recharges. These recharges have been separated out from core service budgets and are shown below the line. Further detail will be provided to Cabinet and City Council in February for each Directorate, showing all the proposed budget movements.

10.3 These pressures are driven by additional expected activity and are separate from the inflationary budget pressures (which impact existing activities). The significant demand led pressures are:

10.4 Adult Social Care

a) Adult Social Care supports around 13,000 citizens at any point in time, providing around 18,000 packages of care, and remains one of the Council's largest areas of net expenditure at around 40% of total directorate net expenditure. Additional investment of £45m has been provided to the service to cover anticipated additional costs and pressures.

b) The Council continues its strength-based approach to assessing needs and building on the assets that support citizens. This approach fosters independence, choice, and control, which in turn reduces reliance on Council intervention. This approach has placed a greater emphasis on supporting citizens to live independently in community settings, rather than being placed in long-term traditional care settings, thus delivering better outcomes for the citizens. The growth that has been built into the budget recognises the impact of these previous initiatives and the impact of ongoing transformation work.

c) Growth in demand from demographic, population and societal changes has been estimated at £15.6m. There are more Older People with more complex needs and the Younger Adults cohort continues to grow again with more complex needs. As a reflection of these increasing numbers and complexities the Council has seen average increases in demand of almost 5%.

d) Inflationary increases in externally commissioned care packages have been factored into the budget at £30m, which includes £10m of additional funding for the independent care market so support them with the impact of the National Insurance increase. £23m of central Government Grants has continued for a further year, the purpose of which is to make tangible improvements to Adult Social Care services and in particular build capacity and improve market sustainability and the Council has a duty under Section 5 of the Care Act 2014 to promote the efficient and effective operation of the market for adult care and support services.

10.5 Children's Social Care - Birmingham Children's Trust (BCT)

a) Under the Contract, the Contract Sum shall be increased and agreed annually by the allowance for indexation that has been agreed between the Council and the Birmingham Children's Trust, and for the agreed forecast adjustments for both children in care (CIC) and unaccompanied asylum seeking children (UASC).

b) The growth awarded to Birmingham Children's Trust for financial year 2024/25 covered actual demand levels as of November 2023. As requested by the

Council, the 2025/26 growth requested by BCT is based on the difference between the November 2023 actual demand levels and forecast average demand levels between April 2025 and March 2026. Therefore the 2025/26 growth request covers a longer period than the 2024/25 request did.

c) It is recognised nationally that pressures on children's social care are rising substantially. Drivers include:

i. Rising demand – increasing referrals, assessments, Children in Care. For BCT:

- Early Help: from no service in 2018 to 26,000 families receiving help.
- Assessments: forecast to rise by 9% from November 2023 to 2025/26.
- Child protection plans: forecast to rise by 6% from November 2023 to 2025/26.
- Children in need: forecast to rise by 2% from November 2023 to 2025/26.
- Children in Care: forecast to rise by 7% from November 2023 to 2025/26.

ii. Rising complexity of need – driven in part by the pandemic and latent, unmet need. BCT are experiencing higher residential unit costs because of this rising complexity, with an increasing number of young people displaying challenging behaviours. The cost of Secure Welfare provision has more than doubled in 12 months because of complexity and market failure issues.

iii. Increasing numbers of Unaccompanied Asylum-Seeking children (UASC) – For BCT the number of UASC continues to grow. The grant received does not cover costs and, as these young people become care leavers the grant reduces significantly while our responsibility endures. This has created unfunded pressure.

iv. Rising costs of care – this is a widely reported national challenge. The impact of inspection and regulation, as well as market failures are driving up costs.

v. Staffing pressures – including the challenges of recruitment and retention for some key roles, such as social workers and lawyers.

10.6 City Housing

a) The Council continues to face significant levels of demand for Temporary Accommodation, driven by the Cost of Living Crisis and the private rental market prices. In 2020/21, the average number of Bed and Breakfast placements per week was 496; by December 2024 this had risen to 1,346 per week.

b) With demand outstripping supply, the prices charged for Emergency Bed and Breakfast (B&B) placements increase as costs are determined by providers, and the rents chargeable to tenants are capped at the Local Housing Allowance (LHA) rate.

c) The City Housing budget recognises the impact of the growth in deman for TA placements over the past 5 years, which at current demand levels has created an additional £11.596m of funding required in 2025/26, but the savings plans are proposed to reduce this budget by £18.2m. These savings are focussed on three areas, to avoid service reductions and the negative impacts which would come with that. These areas are demand reduction, through focussed family intervention and Relief initiatives and joint working across the Council's front line services to the same effect; increases in supply, both within TA as a replacement for costly B&B usage, within Social Housing, in order to increase throughput from the Social Housing Register, and externally with wider affordable housing development. The third area of savings is cost and income changes, through third party cost control, passing costs to DWP where relevant, or to tenants where they can afford and should be paying it, and effective collection of rents and arrears.

10.7 Pension

10.8 Under current legislation that governs pension funds (the Local Government Pension Scheme Regulations), a review of pension contributions happens every three years. This is known as a "triennial review" and is a formal valuation of the fund undertaken by an actuary appointed by the fund, that compares a pension Fund's assets against its forecast liabilities (i.e. future pension payments). Employer contribution rates are set to ensure the fund's long-term solvency and to ensure long-term cost efficiency. It must be done on 31 March every three years. The last triennial review was carried out in March 2022, and this impacted the pension contributions for the 2023/24, 2024/25 and 2025/26 financial years. The next triennial review is due to be carried out in March 2025, with a view to updating pension contributions for the 2026/27 financial year and two subsequent years.

10.9 At the triennial review carried out in March 2022 the Council was required to make a Secondary contribution. As the latest forecast is that the Council is in a surplus position it will likely mean the Secondary contribution will cease from 2026/27. Therefore, in the MTFP the Council has assumed that this Secondary contribution ceases from 2026/27, this equates to £10m per year. The Council will work closely with the West Midlands Pension Fund as part of the next triennial review and will update MTFP assumptions throughout 2025/26.

11 2025/26 to 2028/29 Savings Programme

11.1 For the 2025/26 to 2028/29 MTFP period, Cabinet has been clear in its intention to endeavour to present a balanced budget for 2025/26 and 2026/27 to Cabinet and City Council for final approval in February 2025, as directed by Commissioners.

11.2 The Council has used various methods to identify, review and propose savings to put forward for the MTFP. Since April 2024 the Council has worked to put forward credible and deliverable savings. This approach has included:

a) Savings Targets per Directorate set at CLT;

b) Star Chambers led by the Cabinet Member for Finance;

c) Managing Director Budget Meetings;

d) Budget Challenge Sessions led by the Cabinet Member for Finance and Cabinet Member for Transformation, Governance and HR;

e) Review and challenge by Overview and Scrutiny Committees;

f) Establishing a joint working group of Officers, the Cabinet Members for Finance and Transformation, Governance and HR to review the budget in detail; and

g) Commissioner led Budget Sessions.

11.3 These savings have gone through the same Officer due diligence process as last year. This has included:

a) Reviewing how savings deliver for the General Fund, and understanding the potential consequential impact on Capital, Housing Revenue Account and the Dedicated Schools Grant budgets;

b) Checking the annual phasing of savings, to ensure recurring savings are prioritised over time-limited savings which defer the problem to later years;

c) Understanding cross-directorate consequences of service modifications, to ensure pressures are not encountered which offset proposed savings;

d) Checking for double counting of proposed savings across Directorates;

e) Developing equality impact assessments for all proposals where appropriate; and

f) Reviewing and challenging the People Services, Procurement, Legal, Risk, and Digital & Technology Services implications for all proposals.

11.4 These activities led to the removal of any unsuitable initial savings proposals.

11.5 Within the 2025/26 savings programme, five savings have been identified as having a cross-Directorate impact, meaning their delivery depends on collaboration across all areas of the Council. While these savings have been allocated to a lead Directorate as part of this Budget for accountability purposes, the delivery responsibility is shared across multiple Directorates. To address concerns raised during Scrutiny challenge sessions—where it was noted that cross-Directorate savings often fail to meet targets due to unclear accountability and gaps in responsibility—these savings will now be assigned to a designated Senior Responsible Officer (SRO) within the lead Directorate. The SRO will oversee delivery, with collective support, review, and challenge from CLT on a minimum monthly basis.

11.6 Additionally, these savings will be monitored through regular reporting to Overview & Scrutiny sessions, ensuring visibility and accountability, with escalations made as necessary to resolve any barriers to successful delivery. For the purpose of setting the initial budget, the savings are being allocated to the lead Directorate to ensure ownership and accountability. In due course, after detailed due diligence has been undertaken, the saving will either be allocated to service areas holding the budgeted costs, or relevant budgets will be centralised for the lead directorate to apply the saving against.

Table 5 – Cross-Directorate savings allocated to Directorates

Saving	2025/26 £'000	SRO (CLT)
279 Business Support Consolidation – JEQ opportunities	409	Executive Director, Corporate Services
279 Business Support Consolidation – JEQ opportunities	3,000	Executive Director, Corporate Services
255 Ring Fenced Public Health Grant (PHRFG) Maximisation	1,440	Director of Public Health
216 Debt recovery consolidation	1,823	Executive Director of Finance and Section 151 Officer
214 Corporate Landlord Operational Property Savings	350	Executive Director of Places, Prosperity & Sustainability
TOTAL	**7,022**	

<u>Summary of the 2025/26 and 2026/27 Savings Programme</u>

11.7 **Table 6** below sets out the summary value of savings proposed by each Directorate. Collaboration, communication and effective project management will therefore be critical in the successful delivery of the savings programme in 2025/26 and 2026/27. **Appendix 1** sets out further detail and the savings as a percentage of Directorate Net Budgets.

Table 6 – Summary of 2025/26 and 2026/27 Savings Programme

Directorate	2025/26 £'000	2026/27 £'000
Adult Social Care	43,006	6,983
Children & Families	39,932	8,200
City Housing	18,200	9,200
City Operations	20,470	781
Place Prosperity & Sustainability	5,194	1,150
Corporate Services, Finance, People Services, Legal & Governance	22,102	3,187
TOTAL	**148,904**	**29,501**

11.8 Overall, the process to develop these savings gives greater confidence in the organisation's ability to deliver; the vast majority of savings proposed for 2024/25 are also being delivered. The officers and directors proposing these savings are more confident in the credibility and deliverability of these savings proposals. This will be important over the coming months – while the reviews undertaken and the governance processes proposed have or will play a key part, ultimately the savings proposed (if decided upon) will only deliver if the necessary action is undertaken on the part of the service areas, with help as required from the Council's enabling services. This includes the £20m Improvement & Recovery Plan budget, held within the Contingency budget for the year.

11.9 The savings as set out in the table above are also analysed according to the nature of the saving being delivered. This analyses the savings according to whether they are derived through transformation, efficiency, income generation, service reduction or other drivers. The table below sets out how much of the total savings are attributable to each theme:

Table 7 – Savings analysed by theme

Theme	**2025/26 Additional £'000**	**2026/27 Additional £'000**
Transformation	41,859	19,800
Efficiency	75,786	10,035
Income generation	16,974	(300)
Service reduction	4,584	66
Other	9,701	(100)
TOTAL	**148,904**	**29,501**

a) Transformation as a theme reflects that there are significant changes in the way a service is being operationally delivered in order to achieve savings, rather than just streamlining existing processes. It could involve demand management, reshaping services, early intervention or alternative delivery methods

b) Efficiency savings are generated through cost reductions in the delivery of a service such as staff reductions, contract renegotiation or cost control and so which broadly maintain the same level of service provided by the Council but at a lower cost.

c) Income generation relates to savings generated through increased fees and charges, new charges being introduced by the Council, or seeking increased third party funding streams for existing services.

d) Service reduction reflects those savings whereby the Council is reducing or closing services to service users.

e) The Other category relates to those proposals which do not fit the above themes, such as inflation budgets not used, pressure reductions or grant usage maximisation.

11.10 Savings set as part of the 2024/25 budget are largely on track to deliver, with any slippage or risk of non-delivery being mitigated. A number of savings are no longer deemed deliverable and consequently these are being removed. This amounts to £13.6m and has been built back into the budget for 2025/26. The savings which have been removed are:

- 18 – Reduce Spend on Highways Maintenance - £12.000m;
- 19 – Reduction in Highways Management Budget - £0.500m;
- 188 – Procurement contract savings - £1.000m; and
- 175 – 5G Small Cells and LoRoWAN - £0.085m.

11.11 Where proposals are only able to provide a saving on a time-limited basis, they are built into the MTFP profile to unwind at a later year. This may include use of certain grants on a short-term basis or where spend has been delayed for a year but is anticipated to be required again at a later date. A number of budget savings from 2024/25 and one saving from 2025/26 are grant funded, which means the saving (i.e. grant funding) is due to end in 2026/27 and this is reflected in the MTFP. It is imperative that these savings are reviewed during 2025/26 and mitigations are found to ensure these do not cause a pressure to the General Fund.

12 Resources

12.1 This Section deals with the Council's sources of income: government grants, other income (from a range of sources, including fees and charges), Council Tax and Business Rates.

<u>Government Grants</u>

12.2 There are two main categories of grant:

a) Those used to fund wider Council services (e.g., Top Up Grant, Business-rates related Section 31 grants); and

b) Those ringfenced to fund specific services (e.g. the Social Care Grant, Public Health Grant).

12.3 The grant allocation is as follows:

Table 8 – 2025/26 Summary of the Council's Corporate Grant Allocation

Grant	**2025/26 Planning Forecast (from 2024/25 Financial Plan) £'000**	**2025/26 Funding allocation £'000**	**Movement £'000** *Favourable (Unfavourable)*
Social Care Grant	127,000	163,926	36,926
Adult Social Care Market Sustainability & Improvement Fund	24,501	24,501	0
Adult Social Care Discharge Fund	15,810	0	(15,810)
New Homes Bonus	4,990	8,460	3,470
Service Grant	2,300	0	(2,300)
Small Business Relief Grant	102,941	68,808	(34,133)
Business Rates Multiplier Cap Grant	69,750	75,939	6,189
Recovery Grant	0	39,272	39,272
Children's Social Care Prevention Grant	0	11,869	11,869
Extended Provider Responsibility Grant	0	15,200	15,200
Government support for Employers NI increase Grant	0	10,401	10,401
Total	**342,302**	**418,376**	**71,084**

12.4 The Social Care Grant is held corporately and then assigned against pressures in Adults and Children's Social Care if the need arises. Part of this increase is due to the additional funding received in 2024/25 that was assumed to be one-off but has now been included in the base funding for Local Government. The main increase is the Council's share of the £880m funding provided to Local Government.

12.5 The Children's Social Care Prevention Grant has been allocated to cover existing pressures within Children's Social Care, specifically Birmingham Children's Trust, and Education Safeguarding teams in BCC. This funding, which has been defined within initial Department for Education (DfE) guidance, does not yet form part of statute. Published guidance is due in Spring 2025, after which date the assessment of new burdens will be made to determine whether this grant is fully allocated to new pressures or existing service delivery. After which date, if this materialised partially or fully as new burdens, a draw down would need to be requested against the Capitalisation Contingency. Every effort must be made to match existing service delivery with the new burdens, in order to achieve grant optimisation as outlined in the MTFP principles.

12.6 For the majority of Council grants, the grant is matched to the expected expenditure, resulting in a net zero impact on the budget gap shown in **Table 1**. **Table 8** above shows the impact of grants that do impact the budget gap – i.e. can be used to cover a range of general pressures. It should be noted that the Adult Social Care grants would normally result in a net zero impact, usually through payments to third party providers. For this financial year, some elements of these grants have been used to fund existing pressures

12.7 The full list of grants that the Council expects to receive for the 2025/26 financial year is included in **Appendix 5** for information.

12.8 The Final Local Government Finance Settlement was announced on 3 February 2025, this included details on minor changes to Grants that were previously announced. This increases the total additional funding to the City Council by £71.1m for 2025/26 compared to prior year (**Table 8 refers**). **Table 9** details the changes between provisional and final LGFS:

Table 9 – Summary of Funding announced in the Final Local Government Finance Settlement

Funding	Current MTFP Forecast £m	2025/26 Final Amount £m	MTFP Impact £m
Top Up Grant	75.300	75.300	-
Social Care Grant	163.900	163.926	0.026
New Homes Bonus	8.460	8.460	-
Homelessness	4.253	4.253	-
Recovery Grant	39.300	39.300	-
Children Social Care Prevention Grant	11.100	11.869	0.769
Services Grant	0	0	-
National Insurance Funding	10.000	10.401	0.401
Total MTFP Impact	**312.313**	**313.509**	**1.196**

Other Income

12.9 The Council receives other income from two sources: 1) government grants that are ringfenced for specific purposes, and 2) fees and charges, sales and rents:

12.10 Full details on the grants received by the Council are included in **Appendix 5** of this report and a full list of fees and charges is included in **Appendix 11** of this report.

Funding – Council income from taxation

12.11 The Council receives income from two taxes: Council Tax and Business Rates. For Council Tax, the forecasts are impacted by the number of houses in the city and the proposed level of the charge. For Business Rates, the main impacts are the number of businesses in the city and the number of reliefs. It should be noted that, for 2025/26, forecast Business Rates income is lower than the £480.419m that has been budgeted for the 2024/25 year, mainly as a result of falling rateable value (i.e. the value of business premises in the city) and an increased number of appeals (in which businesses seek reductions in their tax bill). Further details are described in the following paragraphs.

Table 10 – Breakdown of Council Resources

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
RESOURCES				
Forecast Business Rates Income	(443,112)	(454,633)	(464,635)	(472,998)
Business Rates Deficit for the 2025/26 financial year	20,484	-	-	-
Forecast Council Tax Income	(526,626)	(557,327)	(589,818)	(624,204)
Council Tax Surplus for the 2025/26 financial year	(7,038)	-	-	-
Top Up Grant	(75,300)	(76,806)	(78,342)	(79,909)
TOTAL RESOURCES	**(1,031,592)**	**(1,088,766)**	**(1,132,795)**	**(1,177,112)**

Council Tax

12.12 The Council Tax income yield is dependent upon the accuracy of the forecasts held within this Budget report. This includes:

Forecast Council Tax income

a) **The Council Tax Taxbase (i.e. the number of eligible homes)** – this forecast includes estimates of the number of new homes to be built in the city, the estimated number of homes eligible for discounts / exemptions from Council Tax and the number of claimants under the Council Tax Support Scheme. The Council Tax forecast for the 2025/26 budget is based on the forecast of 273,244 Band D equivalent properties for 2025/26, which was approved by Cabinet at its meeting on 21 January 2025.

b) **The assumed levels of collection** – it has been assumed that the percentage of Council Tax that will not be collected is 2.6% for the 2025/26 budget forecast. This is the same as the level assumed in the 2024/25 budget forecast. It is a 0.3% improvement on the 2.9% assumed level of collection within the 2023/24 budget. This improvement is expected as a result of work in the Revenues and Benefits Service to employ additional staff to enforce outstanding Council Tax debts.

c) **The Council Tax Rate** – this report assumes **an increase of 7.49%** for the 2025/26 financial year with an increase of 4.99% forecast for 2026/27 and future years. The recommendation will be put forward to City Council on 28 February 2025 for final approval.

Council Tax surplus for the 2024/25 financial year

a) The overall Council Tax surplus to be charged to the Collection Fund is £8.2m. The Council's share of this is £7.0m, the remainder being split across the other preceptor for whom the Council collects tax (West Midlands Fire Service and West Midlands Police). The overall surplus of £8.2m can be split into two elements: The 2023/24 Outturn was £4.3m better than forecast when setting the 2024/25 budget, and the 2024/25 Outturn is forecast to have a surplus of £3.9m.

b) The 2023/24 surplus in comparison with the original forecast was mainly caused by reductions in exemptions.

c) The Council Tax surplus forecast for 2024/25 is largely driven by growth in the Council Tax base that is over and above growth forecast in the budget.

Business Rates

12.13 The Business Rates forecast has been calculated in conjunction with LG Futures, who are experts in the Collection Fund.

12.14 The Business Rates income yield is dependent upon the accuracy of the forecasts held within this Budget report. This includes:

Forecast Business Rates income

a) **Rateable value of the businesses in the city**: The forecast was based on the valuation list as of 16 December 2024. This has been used in calculating the Business Rates income projection. The Government continues to set the Business Rates multiplier which determines the level of Business Rates that each business pays. The Council has forecast the levels of appeals and non-collection that are expected to occur in 2025/26. In order to be prudent no growth has been forecast, although external partnership work is being carried out in order to maximise Business Rates Income.

b) **Collection rates**: In any year a proportion of the billed Business Rates may not be collected; for example, if a business goes into liquidation. The City Council has made an assumption of 1.8% for non-collection for 2025/26. This is slightly higher than the 1.6% assumed in 2024/25. This compares to the assumption of 2% made in years prior to Covid-19. This improvement compared to 2023/24 is expected as a result of work in the Revenues and Benefits service to employ additional staff to enforce outstanding Business Rates debts. Should this collection rate be improved, the resulting surplus will become available to assist in budget setting in future financial years and should this collection rate not be achieved the resulting deficit will be reflected in future budget setting.

c) **Expected number of appeals**: Each year appeals are made against the rateable value of properties as determined by the Valuation Office Agency. Appeals that are upheld are backdated to the beginning of the ratings list period, or when the change in circumstances came into existence if later than this date. It is prudent for the Council to make an assumption about the level of successful appeals that will be made each year and set aside adequate provision for repaying appeals. The Council is assuming that these will be £20.8m, excluding Designated Areas (the existing Enterprise Zones, and two new zones, the Birmingham Knowledge Quarter and East Birmingham and North Solihull Growth Zone) which is broadly in line with the 2024/25 budget. This forecast has been provided by Analyse Local, who specialise in Appeals.

d) **Expected number of reliefs (i.e. discounts on business rates)**: as announced at the Budget in October 2024, the Government continues to provide a package of measures to support small businesses during 2025/26 along with additional support to eligible retail, leisure and hospitality premises. This will reduce the level of Business Rates income generated within the city. An estimate of £25.0m for additional support to eligible retail, leisure and hospitality premises, excluding Designated Areas has been included in the 2025/26 business rates forecast. Government compensates the Council for the lost income from these reliefs in the form of a Section 31 un-ringfenced grant (i.e. can be spent any services that the Council chooses; not ringfenced for a particular service).

e) After allowing for these measures, the Council’s total projected retained income for 2025/26 from Business Rates is expected to be £443.1m. This is an increase of £7.5m when compared with 2024/25. In addition, the Council expects to receive compensatory grants of £144.7m which is a decrease of £20.8m when compared to 2024/25. Taking this into account, overall income from Business Rates related funding is expected to be £587.9m as summarised in the table below.

f) This is a decrease of £13.2m or 2.2% when compared with 2024/25. The main reason for the decrease is that whilst there has been some growth in Business

Rates from new properties and from work to identify properties that should be on the list, this has been outweighed by reductions in rateable value and deletions from the list. There is also an increase in the value of charitable relief expected to be granted. These are partially offset by increase in income due to inflation. The forecast for the 2025/26 financial year is set out in **Table 11** below.

Table 11 – Forecast Business Rates Income

	2024/25	2025/26	Movement
	Council Areas (excluding the Enterprise Zones) £'000	**Council Areas (excluding the Enterprise Zones) £'000**	**Council Areas (excluding the Enterprise Zones) £'000**
Gross Rate Yield after Reliefs and Growth	**441,713**	**450,854**	**9,141**
Estimate of Losses in Collection	(7,163)	(8,972)	(1,809)
Designated Area Baseline less Allowance for Cost of Collection	27,324	27,521	197
Allowance for Appeals and Prior Years Adjustments	(21,897)	(21,815)	82
Net Rate Yield	**439,976**	**447,588**	**7,612**
99% of Business Rates to be retained by Birmingham	**435,577**	**443,112**	**7,535**
Net Section 31 Grants budgeted for	165,502	144,747	(20,755)
Total Resources Including Funded Reliefs	**601,079**	**587,859**	**(13,220)**

g) The value of Business Rates growth over and above a pre-determined baseline expected to be collected from the Designated Areas (i.e. Enterprise Zones) is required to be calculated separately from the Council's element of total income as this resource is ring fenced in its entirety to the Designated Areas.

Business Rates deficit for the 2024/25 financial year

h) The overall Business Rates deficit to be charged to the Collection Fund is £20.7m. The Council's share of this is £20.5m, the remainder being split across the other preceptor for whom the Council collects tax (West Midlands Fire Service). The overall deficit of £20.7m can be split into two elements: The 2023/24 Outturn was £10.9m better than forecast when setting the 2024/25 budget, and the 2024/25 Outturn is forecast to have a deficit of £31.6m.

i) The 2023/24 surplus in comparison with the original forecast was mainly caused by two issues:

i. The costs of Retail, Hospitality, and Leisure Relief was £6.7m less than forecast. However, it should be noticed that this reduction meant that the Council was due less Section 31 Grant Income than forecast.

ii. Provisions for Doubtful Debt £2.3m improvement – The overall collection rate was slightly higher than anticipated, thus reducing the provision for Bad Debts required at year end.

j) The Business Rates deficit forecast of £31.6m for 2024/25 is largely driven by £12.9m reduction in gross rates compared to the budgeted position and £11.5m in prior year adjustments to the gross rates position, due to continuing high levels of appeals approved by the Valuation Office Agency (VOA. As well as this, reliefs are £4.5m higher than budget, however some of these reliefs are funded by Section 31.

Top Up Grant

12.15 Alongside Business Rates income, the Council will receive a Top Up Grant for the 2025/26 financial year. This will be £75.3m for the 2025/26 financial year. The reason that the Council receives this grant is that the expected level of Business Rates income (known as the Business Rates baseline) is lower than the expected level of income that the Government expects the Council to generate (known as the Baseline Funding level).

Levies & Precepts

12.16 The Transport Levy and contribution towards other costs of the West Midlands Combined Authority are included within the Council's revenue budget (see **Appendix 2**).

12.17 The Resolution to the City Council concerning overall Council Tax levels includes the amounts for the various precepts. These are as follows:

a) Fire & Rescue Authority;

b) West Midlands Police and Crime Commissioner;

c) New Frankley in Birmingham Parish Council; and

d) Royal Sutton Coldfield Town Council.

Enterprise Zone voluntary income contribution

12.18 The Greater Birmingham and Solihull Enterprise Zone was set up in 2012, a £1bn investment plan, extended in 2017 to run until 2045/46. Within this zone all uplift in Business Rates is captured and ringfenced to accelerate economic growth by unlocking development sites and attracting private sector investment.

12.19 The Enterprise Zone (EZ) covers 113 hectares across 39 sites in the City Centre and the EZ Investment Plan 2019 has a strategy to deliver a phased programme of £1.2bn value of projects by 2046. All Business Rates growth generated within an Enterprise Zone is to be kept and used by the relevant Local Enterprise Partnership and local authorities to reinvest in local economic growth.

12.20 The Local Enterprise Partnerships were dissolved in the 2022 White Paper and within Birmingham, the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) EZ programme transferred to Birmingham, under a DLUHC-approved assurance and governance structure managed by the Enterprise Zone Partnership Board comprising private and public sector partners.

12.21 The ringfenced Business Rates income due to the EZ, whilst providing investment and economic growth for the city does not make a direct financial contribution to the Council's budget. The business rates attributable to the EZ geography are excluded from the total business rates which contribute approximately 25% of the total revenue. Now in year 14 of the EZ investment plan, increased business rates over and above the retained baseline are not entirely attributable to EZ direct investment, albeit there will have been some additional growth attracted by early tax incentives and stimulated by adjacent investment. There is consequently a level of economic growth within the city that is inherent, would have occurred, potentially at a slower rate but without the EZ incentive.

12.22 Therefore, this budget assumes that, as agreed in the 2024/25 budget papers, from 2023/24 financial year and for the life of the EZ (to 2045/46), the first £3m of the net surplus will accrue to the Council and the second £3m will accrue to the EZ reserve. The annual net surplus balance will then be split 50:50. The final split will be calculated in arrears following close-down of the accounts.

12.23 For the 2025/26 financial year, it is assumed that the full £3m balance will be accrued to the Council.

13 Contingency Budget

13.1 Separate and distinct from reserves, the 2025/26 budget includes a Contingency budget. The Contingency budget is held centrally and not allocated to services at the start of the financial year.

13.2 The Council holds a contingency budget to protect against unplanned expenditure or when the costs of certain decisions which may be taken during the course of the financial year become clearer. The contingency budget is held within the Council's General Fund revenue budget for two main purposes:

i. To cover upcoming costs that are not specific to a single Directorate and for known risks whose amount/timing is uncertain; and

ii. To hold a contingency for unknown items.

13.3 Allocations will be made to services only after the demonstration of need and are subject to review and approval by the Section 151 Officer, with the exception of allocations from the Capitalisation Contingency which will be approved by Cabinet.

Table 12 – Contingency Budget proposed allocation for 2025/26 to 2028/29

	2025/26	2026/27	2027/28	2028/29
Contingency Budget	**£ '000s**	**£ '000s**	**£ '000s**	**£ '000s**
Capitalisation Contingency	30,000	20,000	15,000	10,000
Improvement & Recovery Plan	20,000	10,000	10,000	10,000
Inflation Contingency	8,263	12,290	11,890	11,890
Pay and Grading Contingency	7,500	15,000	30,000	30,000
Extended Producer Responsibility	3,500	5,250	5,250	5,250
Additional Council Tax Hardship	1,361	1,361	1,361	1,361
Emergency Highways Maintenance	1,550	1,800	2,050	2,300
Apprenticeship Levy	1,447	1,497	1,549	1,602
Community Empowerment Fund	1,000	1,000	1,000	1,000
Flood defence Contingency	50	50	50	50
Business Rates	0	20,000	10,000	10,000
Total Contingency budget	**74,671**	**88,248**	**88,150**	**83,453**

13.4 This budget includes the following allocations:

a) Capitalisation Contingency – this budget is held as a buffer against two things:

i. the potential additional unforeseen borrowing costs as a result of the capitalisation direction requested by the Council; and

ii. the non-delivery of savings in **Section 11 and Appendix 1**. It provides the Council with some ability to smooth the impact of delayed savings in the 2025/26 financial year.

b) Improvement & Recovery Plan – this funding will enable the Council to undertake the plans required to deliver the proposed savings programme for the 2025/26 financial year.

c) Inflation Contingency – this includes contingencies inflation over and above our assumptions included within this report, such as if the Pay Award were greater than the 4% assumed in this budget.

d) Pay and Grading Contingency – this is to fund any impact on base salary budgets of the new Pay and Grading structure

e) Extended Producer Responsibility – the implementation costs to provide funding for collecting, managing, recycling and disposing of household packaging waste.

f) Additional Council Tax Hardship – this includes additional contributions (reduction in liability) to residents that are already in receipt of Council Tax Support and have a liability to pay a contribution to their Council Tax. This contribution essentially covers additional increases in Council Tax above the referendum limit proposed in this budget and the 2024/25 budget.

g) Emergency Highways Maintenance – contingency to cover emergency highways related spend.

h) Apprenticeship Levy – funding to cover costs charged on salaries within Directorates. Charges are moved to Directorates at year-end following confirmation of salaries. During 2025/26 this budget will be moved across to the Directorates.

i) Community Empowerment Fund – this Fund will be used to support and empower local communities as the Council enters into a period of transformation. Our citizens will be critical to that journey and the fund will be used to support activities that: boost civic pride, mitigate the impacts of the cost-of-living crisis, increase volunteering, improve community cohesion, promote wellbeing and encourage active lifestyles and protect the local environment including public open spaces.

j) Flood Defence Contingency – to ensure the Council has funds available for the potential impact of flooding.

k) Business Rates – given the volatility in Business Rates impacting 2024/25 and 2025/26 budgets, a contingency has been included from 2026/27 onwards in anticipation of the ongoing reset and revaluation of business rates, which introduces uncertainty around future income levels. Given the potential for changes in rateable values, appeals, and local landscape, the Council must account for the risk of fluctuations in business rates income. *Note: This is estimated based on forecasts from LG Futures, which could be updated up or down for future years.*

14 Reserves & Balances

2025/26 Reserves & Balances Policy

14.1 The Council's Reserves & Balances Policy was completely revised for 2024/25 (**Appendix 4 refers**). This new proposed Reserves & Balances Policy is consistent with the latest guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). This is the CIPFA Bulletin 13 – Local Authority Reserves and Balances (updated in March 2023).

14.2 The Council's policy on reserves makes clear that reserves are not to be used to avoid the necessity to make ongoing savings or meet budget pressures other than in exceptional circumstances. Reserves can only be used on a one-off basis, which means that their application does not offer a permanent solution.

14.3 It should be noted that there were significant changes proposed to the Reserves and Balances Policy for the 2024/25 financial year:

a) Recommended levels of General Fund Balances: To ensure consistency with CIPFA guidance, it is planned to keep the level of the General Fund Balance the same as 2024/25. This reserve acts as a corporate contingency to cushion the impact of unexpected events or emergencies. It also provides a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. In prior years, the reserves policy was to hold 4.5% of net expenditure in reserve for any given year. For 2024/25, the Section 151 Officer increased the General Fund Balance to represent 5.0% of net expenditure, given all of the risks and issues the Council was dealing with. For 2025/26, the Section 151 Officer proposes to maintain the General Fund Balance at 5.0% of net expenditure, as these issues and risks still need to be fully addressed by the Council.

b) Strategic Reserve: Previously, the Council held a large number of small reserve pots to cover a range of policy earmarks. To improve the governance around the reserves, the Section 151 Officer recommended creation of a "Strategic Reserve".

c) Drawdown of reserves: to drawdown the Strategic Reserve, any request will have to be formally approved by the Section 151 Officer and approved at Cabinet. It should be noted that any reserve spending for future years, even if it has received prior approval (through the Section 151 Spend Control board or previously) will need to come back to the Section 151 Officer for approval.

14.4 The Council's Reserves and Balances Policy is included in **Appendix 4**.

Reserves Forecast

14.5 It should be noted that the Reserves forecast below does not include the impact of the potential Equal Pay claims. These costs are covered by the Capitalisation Direction described in **Section 15** of this report. The Council has requested EFS to enable it to protect its existing reserves.

14.6 It should also be noted that reserves balances from prior years may change when the external audits of the accounts 2020/21, 2021/22, 2022/23, 2023/24 and 2024/25 are finalised.

14.7 At the start of the 2023/24 financial year, the Council held reserves (earmarked and unearmarked) totalling £806.3m. During 2023/24, subject to approval and audit, there was a net contribution to reserves of £3.7m, leaving a closing balance of £810.0m.

14.8 During 2024/25, there is a forecast net contribution to reserves of £32.7m, leaving a forecast closing balance of £842.7m, however as stated above, this is before the impact of provisions for potential Equal Pay liabilities.

14.9 The summary movement in reserves is shown in **Table 13** below. This shows the forecast movement in reserves between the planned figures for the 2025/26 and 2028/29 financial years, including planned contributions to and from reserves and balances.

Table 13 – 2025/26 to 2028/29 Reserves and the General Fund Balance Forecast

Description	31/03/2025 £'000	31/03/2026 £'000	31/03/2027 £'000	31/03/2028 £'000	31/03/2029 £'000
General Reserves and Balances					
Corporate General Fund Balance	57,546	52,130	58,591	63,036	66,801
Strategic Reserve	131,629	119,999	119,999	119,999	119,999
General Reserves and Balances	**189,175**	**172,129**	**178,590**	**183,035**	**186,800**
Schools Reserves	96,473	96,473	96,473	96,473	96,473
DSG Reserves	50,403	50,403	50,403	50,403	50,403
Public Health Reserves	23,767	13,097	4,560	0	0
Earmarked Reserves					
Earmarked reserves: Contractual commitments					
Highways PFI	161,333	161,333	161,333	161,333	161,333
Other Contractual Commitments	9,179	9,179	9,179	9,179	9,179
Total Contractual commitments	**170,512**	**170,512**	**170,512**	**170,512**	**170,512**
Earmarked reserves: Planned Future Revenue & Capital Expenditure					
Bus Lane Enforcement Income	14,576	17,076	19,576	22,076	24,576
Clean Air Zone	91,525	84,766	90,173	93,532	82,540
Community Recovery Plan Reserve	229	229	229	229	229
Euro 2028 Reserve	6,431	6,372	6,059	5,212	0
Covid-19 Council Tax Hardship Fund Reserv	1,000	0	0	0	0
One-off resources from previous years	496	0	0	0	0
S31 Grant Reserve	(6,560)	(0)	(0)	(0)	(0)
Other Grant Reserves	124,784	109,426	99,536	93,442	93,404
Other Earmarked Reserves	36,001	37,417	39,349	42,479	45,610
Total Planned Future Revenue & Capital I	**268,482**	**255,286**	**254,921**	**256,970**	**246,358**
Earmarked reserves: Specific Risks					
Business Rates Volatility Contingency	16,345	16,345	16,345	16,345	16,345
Cyclical Maintenance	15,286	17,086	18,886	20,686	22,486
Insurance Fund	9,152	10,963	12,774	14,585	16,396
Total Specific Risks	**40,783**	**44,394**	**48,005**	**51,616**	**55,227**
Earmarked reserves: Other					
Other Reserves	3,100	3,100	3,100	3,100	3,100
Total Other	**3,100**	**3,100**	**3,100**	**3,100**	**3,100**
Total Earmarked Reserves	**482,877**	**473,291**	**476,538**	**482,198**	**475,195**
Total Reserves	**842,694**	**805,394**	**806,564**	**812,108**	**808,871**

14.10 The reserves forecasts in this report have regard to the current forecasts for the 2024/25 financial year. An updated forecast for the 2024/25 financial year (as at Quarter 3) will be presented to Cabinet in March 2025. Whilst there is a forecast underspend, this is not planned to be transferred to the Strategic Reserve, as it will instead be used to reduce the requirement for Exceptional Financial Support and in turn Capital Receipts.

Use of Reserves

14.11 Details of planned reserves uses and contributions are summarised here in **Table 14**:

Table 14 – Planned Uses of Reserves in 2025/26

	Forecast Closing Balance (31st March 2025) £'000	2025/26 planned (use) / contribution to Reserves £'000	Forecast Closing Balance (31st March 2026) £'000
Strategic Reserve	119,999	0	**119,999**
Strategic Reserve-Social Care Grant	11,630	(11,630)	**0**
Schools Reserves	96,473	0	**96,473**
DSG Reserves	50,403	0	**50,403**
Public Health Reserves	23,767	(10,669)	**13,097**
Earmarked Reserves	482,877	(9,585)	**473,291**
Total Reserves	**785,148**	**(31,884)**	**753,263**

Strategic Reserve

14.12 The Strategic Reserve is held for items that could not be known or were not known at the budget setting stage for the 2025/26 financial year. In 2025/26, £11.6m was added to Strategic Reserves as part of additional Social Care funding.

Schools Reserves

14.13 Schools Reserves are the net cumulative balances held by Council maintained schools. Under national school funding regulations, the schools are entitled to retain these balances for unexpected commitments and/or for planned school curriculum/infrastructure improvements and investment.

14.14 In 2025/26, there is no planned use of Schools' reserves, and the balance remains the same at £96.5m.

Dedicated Schools Grant (DSG) Reserves

14.15 DSG reserves relate to the unused element of DSG grant support for which the conditions of the grant are expected to be met. The reserves will be used to meet future years' expenditure.

14.16 In 2025/26, there is no planned use of DSG reserves and the balance remains the same at £50.4m.

Public Health Reserves

14.17 Public Health reserves relate to the unused element of Public Health grant support for which the conditions of the grant are expected to be met. The reserves will be used to meet future years' expenditure.

14.18 In 2025/26, there is a planned use of £10.7m of Public Health reserves and the balance is expected to reduce from £23.8m to £13.1m.

Earmarked Reserves

14.19 Earmarked Reserves are set aside to enable the Council to meet specific future expenditure. They include reserves where grant funding has been received, but not all of the expenditure has yet occurred.

14.20 In 2025/26 it is proposed to make a net use of £9.6m of earmarked reserves comprising the following:

Table 15 – Use/Contribution of Earmarked Reserves

Uses of Earmarked Reserves	2025/26 £'000
Use of Better Care Fund Reserve	(3,200)
Use of Asylum Dispersals Reserve	(1,120)
Use of Homes For Ukraine Reserve	(1,595)
Use of Fairer Futures (Learning Disabilities) Fund Reserve	(5,728)
Use of Challenge Funds - Older People Reserve	(766)
Use of Clean Air Zone Reserve	(6,759)
Use of Covid-19 Council Tax Hardship Fund Reserve to help residents with the costs of living	(1,000)
Use of Contingency Reserve	(496)
Use of Alexander Stadium Transport Mall Reserve	(1,714)
Use of Covid Local Support Grant	(1,725)
Other Uses of Grant and Earmarked Reserves	(1,283)
Subtotal Uses of Earmarked Reserves	**(25,387)**
Contributions to Earmarked Reserves	
Contribution to Bus Lane Enforcement Income Reserve	2,500
Contribution to Selective Licensing Scheme Reserve	2,217
Contribution to Additional Licensing Scheme Reserve	614
Contribution to Cyclical maintenance reserves	1,800
Contribution to Insurance Reserve	1,811
Repayment to Section 31 Grant reserve related to deficits in grant income in previous years due to Business Rates reliefs being less than budgeted	6,560
Other Contributions to Grant and Earmarked Reserves	300
Subtotal Contributions to Earmarked Reserves	**15,802**
Total (Use)/Contributions to Earmarked Reserves)	**(9,585)**

General Fund Balance

14.21 The General Fund Balance acts as a cushion the impact of unexpected events or emergencies. It also provides a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing

14.22 In 2025/26, 5.0% of net General Fund Budget is £52.1m, this means that we can reduce the General Fund Balance down by £5.4m to support delivery of front line services. In future years, the General Fund Balance will be maintained at 5.0% of the net General Fund Budget.

15 Exceptional Financial Support for Birmingham City Council

15.1 The Council is currently in a position where it is unable to present a balanced budget without seeking Exceptional Financial Support (EFS) from Government. This EFS request does not relate to an additional capitalisation direction (in which capital receipts can be used to cover revenue budget shortfalls, as was required for the 2024/25 budget), but does request that some of the Contingency approved in the previous EFS request is used to balance the 2025/26 budget.

15.2 The Council has received permission, through the Final Local Government Finance Settlement, to increase the referendum threshold for Council Tax from 5.00% to 7.50%. This would enable the Council to raise Council Tax by 7.49% in the 2025/26 year (as assumed in the budget set out in **Section 8**) without the need for a referendum. The Council originally requested permission to increase the referendum limit by 5.00% in order to balance the 2025/26 budget, with a Council Tax increase of 9.99%. However, on 3 February 2025, the Secretary of State for Housing, Communities and Local Government made a statement that, in deciding bespoke referendum limits for 2025/26, Government "Having carefully considered requests from councils, the government has agreed small increases for six councils. For the 2025 to 2026 Settlement, bespoke additional council tax referendum principles will apply for ... Birmingham City Council (+2.5%). ... We have agreed to a limited number of requests and in all cases have not agreed to the full amount requested."

15.3 Therefore, in advance of the EFS request being agreed by the Secretary of State, the Cabinet are being asked to agree and recommend to the City Council the proposed budget, assuming that this request is agreed in time for the City Council meeting.

16 2025/26 Housing Revenue Account Budget

16.1 The HRA Self Financing Framework was introduced from April 2012 (as part of the Localism Act 2011), and this required local authorities to maintain a long-term HRA Business Plan. This Business Plan was approved by Cabinet in January 2024.

16.2 In November 2024 the Government confirmed its intention to fix the rent policy for the next 5 years to CPI+1%. With October CPI at 1.7%, this allows the Council to increase social rents to a maximum of 2.7%. Service charges are updated following a review of the services provided and to reflect changes in costs of service delivery due to pay and price inflation. There is a continuation of the existing policy to fully recover the cost of rechargeable services to tenants.

16.3 The full and balanced funding, borrowing and expenditure plan is set out in the HRA Business Plan and rent setting paper approved by Cabinet in January 2025, following an in-depth planning review carried out by the City Housing Directorate, Finance and independent advisors. Further details are set out in **Appendix 6**.

17 2025/26 Dedicated Schools Grant Budget

17.1 Schools receive funding via a variety of different streams, the main ones being the four blocks of the Dedicated Schools Grant (DSG), Pupil Premium Grant, Post 16 Funding and Universal Infant Free School Meals Grant.

17.2 DSG is the main funding stream for schools and education services. The Birmingham City Council (BCC) allocation of DSG announced by the Department for Education (DfE) 18 December 2024, is £1.7bn for 2025/26. Further details are set out in **Appendix 7**.

18 2025/26 to 2028/29 Capital Programme & Strategy

Introduction

18.1 The Capital Strategy is part of the Council's long-term strategic planning and investment. The purpose of the Capital Strategy is to set out how the Council aims to use its resources to support corporate priorities and objectives. It identifies the Council's long-term ambition and intention and the main (internal and external) influences for the capital programme, the key resources that are likely to be available to fund capital investment and the effect of that investment on the revenue budget and borrowing and treasury management activity.

18.2 This Capital Strategy is fully integrated with the Council's MTFS and Financial Recovery Plan, emphasising not only immediate financial responsibility but also setting a foundation for medium- to long-term sustainability. This integration ensures a cohesive approach to resource allocation, aligning capital decisions with both financial recovery and service priorities

18.3 The Strategy is set out at **Appendix 8**, and included below are the steps that are being taken to ensure capital investment supports the Councils Financial Recovery Plan:

a) Ensuring capital investment is prudent, sustainable, and affordable in the context of the Council's overall finances. The affordability of the capital programme will be evaluated, focusing on minimising the impact on the revenue budget and maintaining debt within prudential indicators.

b) Keeping borrowing and revenue costs of the capital programme to the absolute minimum, effectively for Statutory or Regulatory compliance or where it produces revenue savings to the Council.

c) Integrating capital budget decisions into the Council's annual, medium- and long-term planning process, so that capital investment decisions are prioritised alongside plans for revenue income and expenditure.

d) Ensuring stewardship of assets including the Council's land and buildings and generating cash receipts from the Council's asset thereby minimising impact on frontline service delivery.

e) Co-ordinating the management of capital through the Capital Board, which oversees a ‘one Council’ strategic approach to capital management, evaluation and prioritisation potential capital projects.

f) Adopting a life-cycle approach to asset management, ensuring that long-term maintenance costs are considered at the point of investment. This approach aligns with best practice, ensuring sustainable asset stewardship.

g) Rigorously evaluating projects based on their alignment with Council priorities, return on investment, and contribution to long-term resilience. A scoring system will guide prioritisation to ensure transparency and objectivity.

h) Ensuring effective programme, project, and procurement management in delivering the capital programme alongside corporate monitoring control and scrutiny.

i) Regularly reviewing the capital programme against strategic priorities and financial constraints, ensuring alignment with long-term objectives. Annual performance reviews and mid-year adjustments will provide the agility needed to respond to emerging risks or opportunities.

j) Looking to rebuild the Capital programme, to support the Council’s objectives, as the Council’s financial recovery progresses. Overtime will be able to create a 4-year planning and delivery timeline as the Council’s financial position becomes more certain.

k) Incorporating robust scenario planning to anticipate and mitigate financial risks, ensuring that the capital programme remains adaptable to external economic pressures and internal financial constraints

l) Prioritising a programme that not only meets immediate statutory needs but also positions the Council to respond effectively to future challenges, including infrastructure resilience, technological advancements, and demographic changes.

Overview of the Capital programme

18.4 Based on the above strategy to support the delivery of the Council's priorities, the proposed Capital Programme totals **£486.2m** in 2025/26 and **£1,559.9m** on an indicative basis over the four-year period, shown as follows:

Table 16 2025/26 to 202829 Summary Capital Programme by Directorate

	2024/25 Budget	2025/26	2026/27	2027/28	2028/29	Total 2025/26 to 2028/29
Theme	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Delivering Good Services						
Adult Social Care	10,531	14,412	14,318	14,118	14,118	56,965
Children & Families	50,814	43,153	1,649	1,500	1,500	47,802
City Housing (HRA)	268,086	268,056	247,591	255,511	284,944	1,056,102
City Operations	88,167	72,426	35,253	3,098	-	110,777
Corporate Services		3,900	3,750	3,750	3,750	15,150
Place, Prosperity & Sustainability	156,382	78,540	120,226	44,403	19,154	262,323
TOTAL DELIVERING GOOD SERVICES	**573,980**	**480,486**	**422,787**	**322,380**	**323,466**	**1,549,119**
Well-run Council						
Corporate Services	37,594	5,743	2,500	2,500	-	10,743
TOTAL WELL-RUN COUNCIL	**37,594**	**5,743**	**2,500**	**2,500**	**-**	**10,743**
TOTAL	**611,574**	**486,229**	**425,287**	**324,880**	**323,466**	**1,559,862**

18.5 Since the Council's Capital Programme is significantly constrained in terms of funding, and in order to remain in line with the requirements set out within the Capital Strategy and above, a limited number of funding sources have been identified for the 2025/26 financial year. These sources are one-off for the 2025/26 financial year only, and provide a funding envelope for additions:

Table 17 Capital Programme Additions Funding Sources 2025/26

SOURCE	Value £'000
Bond Redemption Release	12,000
Capital Receipts Release	6,000
Revenue Contribution	2,500
Total	**20,500**

18.6 Based on the above funding sources, capital bids have been prioritised in line with the Capital Strategy. The following additions are proposed for 2025/26:

Table 18 2025/26 to 2028/29 Capital Programme Additions

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Total £'000
City Operations					
Critical Infrastructure & Essential Health & Safety	1,715	-	-	-	**1,715**
Replacement of grounds maintenance vehicles and plant	4,611				**4,611**
Replacement of waste collection vehicles	4,902				**4,902**
Replacement of Street Cleansing vehicles	5,372				**5,372**
TOTAL City Operations	**16,600**	**-**	**-**	**-**	**16,600**
Corporate Services					
Neighbourhood and Community Assets Review (#193)	3,900				**3,900**
TOTAL Corporate Services	**3,900**	**-**	**-**	**-**	**3,900**
TOTAL SCHEMES FUNDED	**20,500**	**-**	**-**	**-**	**20,500**

18.7 For the new additions being proposed to the Capital Programme, these will all require Full Business Cases before the funding is agreed and approval can be given to commence spend. A high-level summary of each of the Additions is as follows:

a) Critical Infrastructure & Essential Health & Safety to allow for repairs and maintenance to assets that are deemed a health and safety risk;

b) The replacement of vehicles and plant in Street Scene to support delivery of savings in 2025/26; and

c) The Neighbourhood and Community Asset Review is focused on health and safety requirements in the Councils community assets, as well as to support delivery of savings in 2025/26.

18.8 **Table 22** provides further details of the capital programme, including a summary of the projects included.

18.9 Much of the capital programme is delivered through partnership working, especially with the West Midlands Combined Authority (WMCA) and the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP). The Council acts as Accountable Body for the GBSLEP, and carries out significant prudential borrowing in support of the Enterprise Zone (EZ), with financing costs being funded by Business Rates growth within the EZ. This is controlled through Financial Principles agreed by the LEP with the Council.

18.10 The Council is seeking to secure National Lottery Heritage Funding via a grant to support the redevelopment of Birmingham Museum and Art Gallery (BMAG). As a condition of this funding, the Council must provide £1m in match funding. To preserve the integrity of the Capital Programme and avoid reliance on Capital Receipts or additional borrowing, alternative funding sources have been identified within the Neighbourhoods service. The service have identified a £586k BMAG rates rebate, £375k from Property Budget underspends, and a £39k underspend on Birmingham Museums Trust (BMT) support. These funds will be transferred to a reserve in 2024/25, to be utilised in 2025/26, ensuring the Council meets its funding obligation without increasing financial pressure on the Capital Programme.

18.11 The Council is required to fund the transfer value of the Uffculme School property from Highbury Trust. This will be financed through £700k from the Department for

Education (DfE) grant and £1.06m from the capital receipt generated by the sale of the former Beaufort School. This funding is expected to be sufficient to cover the transfer cost, subject to final valuation. The Council will ensure that the allocation of these funds is appropriately managed to support the completion of the transaction without delay. If the funding were not sufficient, the service would look to identify additional in-year resources to deliver the transfer.

Overview of the Funding of the Capital Programme

18.12 Resources of £1,548.6m have been identified to fund the four-year capital programme from 2025/26 to 2028/29. The following graphs show the resources available for the General Fund and HRA separately:

Figure 17.1 Capital Financing – General Fund

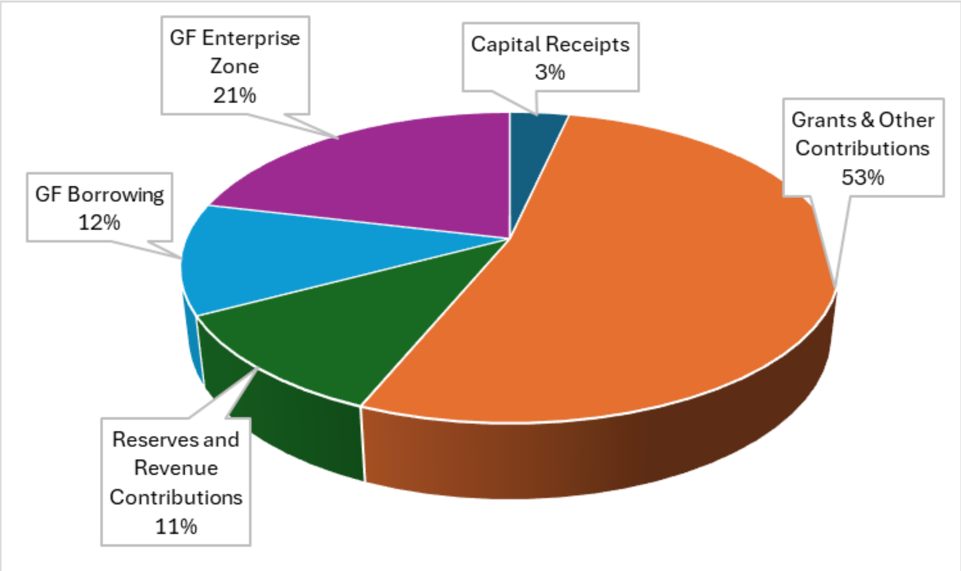
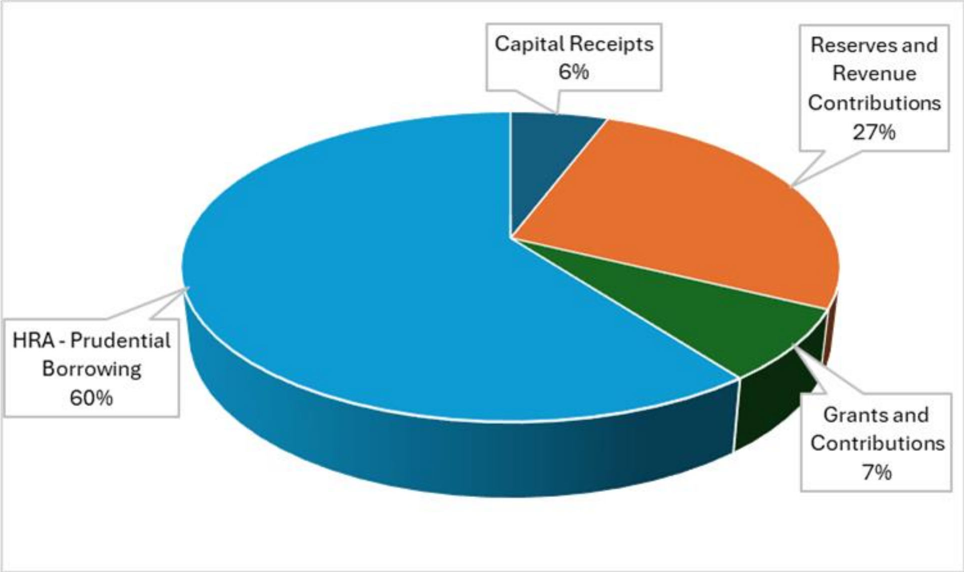


Figure 17.2 Capital Financing – HRA



18.13 A significant part of the Council's capital resources can only be used for specific and designated purposes. These are referred to as specific resources. This includes capital grants and contributions of £338.7m, revenue resources of £334.0m and HRA capital receipts of £60.6m. Cabinet during the year may, if required, approve additional budgets funded by additional external resources.

18.14 Some capital resources are available without significant restrictions, and the Council has more freedom to allocate these towards its own priorities as set out in the Council Plan. These are referred to as corporate resources and comprise mainly capital receipts from asset sales and borrowing under the prudential system of capital finance for local authorities.

18.15 Corporate resources of £815.3m have been budgeted for use to finance the capital programme over the coming four years. £636.6m of this relates to the HRA Capital programme. This includes the use of prudential borrowing and capital receipts from asset sales. Revised or additional capital budgets funded from corporate resources may be approved by Cabinet, however additional prudential borrowing must be approved by City Council if the borrowing costs are not funded by additional income, savings or budget virements. No substantial increases in prudential borrowing or the use of capital receipts will be agreed outside of the annual budget process.

18.16 The Council's capital financing plans seek to make use of available resources in the most efficient way, including borrowing in accordance with the Prudential Code for local authority capital finance. £798.2m of prudential borrowing is included in the four-year capital programme, within the framework and policies set out in this capital strategy, further described below.

18.17 Revenue reserves associated with net surplus income from the Clean Air Zone and Bus Lane Enforcement form an important part of the capital programme, providing additionality and helping lever other funding by forming a local funding contribution to match other grant resources. Resources have been allocated to ensure delivery of key public transport infrastructure (bus and rail) as part of strong partnership working with Transport for West Midlands as an example.

18.18 Final decisions on the funding of the capital programme will be taken by Cabinet in the Outturn report after the end of each financial year.

18.19 A breakdown of the resources used in financing the capital programme is at **Table 22**.

Prudential Borrowing

18.20 The Council will manage its use of borrowing in accordance with CIPFA's Prudential Code. A prudent policy for debt repayment is set out in the Minimum Revenue Provision policy at **Appendix 9B**. General Fund borrowing costs (including interest and repayment charges) in 2025/26 reflect a substantial investment in capital but reduces the resources which would be otherwise available for other revenue priorities. The Council will aim to keep future borrowing to a minimum and only where it is absolutely necessary.

18.21 Local authorities are required by law to set an overall limit on their debt outstanding, including loans and other long-term liabilities. This 'prudential limit' may not be exceeded, so the Council's proposed limit allows for risks, uncertainties, and potential changes during the year which may need to be accommodated within this overall limit. On this basis, the Prudential Limit for Debt has been set at £209.4m for 2025/26, £212.9m in 2026/27, £192.2m in 2027/28 and £183.7m in 2028/29.

Table 19 2025/26 to 2028/29 Forecast Prudential Borrowing in the Current Capital Programme

Prudential Borrowing	**2025/26 £'000**	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**	**TOTAL £'000**
GF Borrowing	34,196	19,635	3,000	-	**56,831**
GF Enterprise Zone	12,048	48,238	34,449	10,000	**104,735**
HRA - Prudential Borrowing	163,117	144,993	154,765	173,744	**636,619**
Total Prudential Borrowing	**209,361**	**212,866**	**192,214**	**183,744**	**798,186**

18.22 **Table 23** analyses planned prudential borrowing between projects which are self-financed through additional income or savings, and projects whose borrowing requires additional budget support. The Council's revenue budget includes provision to meet the net cost of all the above borrowing.

18.23 The CIPFA Prudential Code expects local authorities to consider and approve a number of 'prudential indicators'. These relate to the capital programme generally as well as borrowing and are set out in **Appendix 9C**.

18.24 The Council's debt liabilities and its investments arising from day-to-day cashflows need careful management in order to manage the costs and risks. This is the subject of the Council's Treasury Management Strategy and Policies, which are set out at **Appendix 9 and 9A**.

Capital Strategy Supporting Tables

Table 20 2025/26 to 2028/29 Capital Programmes by Scheme and IRP Theme

	2024/25 Budget	2025/26	2026/27	2027/28	2028/29	Total 2025/26 to 2028/29
	£'000	£'000	£'000	£'000	£'000	£'000
Delivering Good Services						
Adult Social Care						
Adults IT		294	200	-	-	**494**
Property Schemes	436					
Independent Living	10,095	14,118	14,118	14,118	14,118	**56,471**
TOTAL Adult Social Care	**10,531**	**14,412**	**14,318**	**14,118**	**14,118**	**56,965**
Children & Families						
Basic Need - Additional School Places	11,690	28,132	149	-	-	**28,281**
Devolved Capital to Schools	1,537	1,500	1,500	1,500	1,500	**6,000**
IT Investment	1,351					
Major Projects	2,208	858	-	-	-	**858**
Other Minor Schemes	20,027	537	-	-	-	**537**
Schools Condition Allowance	14,000	12,125	-	-	-	**12,125**
TOTAL Children & Families	**50,814**	**43,153**	**1,649**	**1,500**	**1,500**	**47,802**
City Housing (HRA)						
Development/Acquisitions	52,553	40,283	28,266	32,013	57,274	**157,836**
Housing Improvement	215,533	227,773	219,325	223,498	227,670	**898,266**
TOTAL City Housing (HRA)	**268,086**	**268,056**	**247,591**	**255,511**	**284,944**	**1,056,102**
City Operations						
Community Sports & Events	29,912	2,861	2,861	3,098	-	**8,820**
Bereavement	2,662					
Cultural Development	1,057					
Empty Properties	825					
Energy Efficiency	1,757					
Markets Services	250					
Mortuary / Coroners	486					
Neighbourhoods	796					
Other Programmes	133					
Parks & Nature	4,130	809	767	-	-	**1,576**
Critical Infrastructure & Essential Health & Safety		1,715	-	-	-	**1,715**
Tame Valley Viaduct	27,926	22,032	9,844	-	-	**31,876**
Waste Management	18,234	30,124	21,781	-	-	**51,905**
Replacement of grounds maintenance vehicles and plant		4,611	-	-	-	**4,611**
Replacement of waste collection vehicles		4,902	-	-	-	**4,902**
Replacement of Street Cleansing vehicles		5,372	-	-	-	**5,372**
TOTAL City Operations	**88,167**	**72,426**	**35,253**	**3,098**	**-**	**110,777**
Corporate Services						
Neighbourhood and Community Assets Review (#193)		3,900	3,750	3,750	3,750	**15,150**
TOTAL Corporate Services		**3,900**	**3,750**	**3,750**	**3,750**	**15,150**
Place, Prosperity & Sustainability						
Active Travel	21,956	21,265	22,915	800	-	**44,980**
BEAS Schemes	6,595					
Brum Breathes & Route to Zero	450	400	400	250	-	**1,050**
Corridors		3,910	410	1,400	-	**5,720**
Infrastructure Development	2,905	3,129	3,379	1,754	-	**8,262**
Major Projects	65,058	7,048	14,238	9,449	-	**30,735**
Major Schemes	23,972	30,143	73,797	27,800	12,800	**144,540**
Minor Projects	1,205					
Other Transport Projects	139	-	-	-	6,354	**6,354**
Perry Barr Residential Scheme	7,788					
Places for People	1,535	2,000	2,000	2,000	-	**6,000**
Property Services Other	117					
Public Realm	15,518					
Public Transport	3,813	5,327	100	100	-	**5,527**
Safer Routes to Schools	1,445	900	900	850	-	**2,650**
Section 106/278 Schemes	725					
Southside	2,360	4,418	2,087	-	-	**6,505**
Ward Minor Transport Measures	800					
TOTAL Place, Prosperity & Sustainability	**156,382**	**78,540**	**120,226**	**44,403**	**19,154**	**262,323**
TOTAL Delivering Good Services	**573,980**	**480,486**	**422,787**	**322,380**	**323,466**	**1,549,119**
Well-run Council						
Corporate Services						
Corporate Capital Schemes	14,393	4,701	2,500	2,500	-	**9,701**
Revenue Reform	8,596					
ICT & Digital	6,247					
Technology Roadmap	8,358	1,042	-	-	-	**1,042**
TOTAL Corporate Services	**37,594**	**5,743**	**2,500**	**2,500**	**-**	**10,743**
TOTAL Well-run Council	**37,594**	**5,743**	**2,500**	**2,500**	**-**	**10,743**
TOTAL	**611,574**	**486,229**	**425,287**	**324,880**	**323,466**	**1,559,862**

Table 21 2025/26 to 2028/29 New Capital Programmes by Scheme and IRP Theme

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Total £'000
City Operations					
Critical Infrastructure & Essential Health & Safety	1,715	-	-	-	**1,715**
Replacement of grounds maintenance vehicles and plant	4,611				**4,611**
Replacement of waste collection vehicles	4,902				**4,902**
Replacement of Street Cleansing vehicles	5,372				**5,372**
TOTAL City Operations	**16,600**	**-**	**-**	**-**	**16,600**
Corporate Services					
Neighbourhood and Community Assets Review (#193)	3,900				**3,900**
TOTAL Corporate Services	**3,900**	**-**	**-**	**-**	**3,900**
TOTAL SCHEMES FUNDED	**20,500**	**-**	**-**	**-**	**20,500**

Table 2025/26 to 2028/29 22 Capital Resources

SOURCES OF FINANCE	2024/25 Budget	2025/26	2026/27	2027/28	2028/29	Total 2025/26 to 2028/29
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
GENERAL FUND						
Capital Receipts	31,643	9,329	5,313	2,500	-	17,142
Grants & Other Contributions	171,517	123,609	92,117	22,070	21,972	259,767
Direct Revenue Funding	30,893	38,991	8,643	3,600	2,800	54,034
GF Borrowing	68,615	34,196	19,635	3,000	-	56,831
GF Enterprise Zone	40,819	12,048	48,238	34,449	10,000	104,735
TOTAL GENERAL FUND RESOURCES	**343,488**	**218,173**	**173,946**	**65,619**	**34,772**	**492,510**
HOUSING REVENUE ACCOUNT						
Capital Receipts	34,823	22,584	14,800	11,607	11,616	60,607
Direct Revenue Funding	8,089	65,866	70,295	71,700	72,061	279,922
Grants and Contributions	72,845	16,489	17,504	17,439	27,522	78,954
HRA - Prudential Borrowing	152,329	163,117	144,993	154,765	173,744	636,619
TOTAL HOUSING REVENUE ACCOUNT RESOURCES	**268,086**	**268,056**	**247,592**	**255,511**	**284,943**	**1,056,102**
TOTAL RESOURCES	**611,574**	**486,229**	**421,538**	**321,130**	**319,715**	**1,548,612**

Table 23 2025/26 to 2028/29 Analysis of Prudential Borrowing

	2024/25 Budget	2025/26	2026/27	2027/28	2028/29	Total 2025/26 to 2028/29
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
GENERAL FUND						
Children and Families Directorate						
Childrens Trust Acommodation Improvement	2,208	858	-	-	-	**858**
IT Investment	387					**-**
Total Children and Families Directorate	**2,596**	**858**	**-**	**-**	**-**	**858**
City Ops Directorate						
Lifford Depot	1,490	6,704	18,789	-	-	**25,493**
Other Neighbourhoods and Community	1,940					
Private Sector Housing	2,215					
Regulation & Enforcement	3,148					
Parks & Nature	2,956	700	667	-	-	**1,367**
Waste Management Vehicles	5,000	19,000	179	-	-	**19,179**
Waste Management Depot Redevelopment	2,519					
Moseley Rd Baths Refurb	4,330	-	-	3,000	-	**3,000**
Waste Mgt Addtl Recycling Containers	2,210	4,420	-	-	-	**4,420**
TOTAL City Ops Directorate	**25,808**	**30,824**	**19,635**	**3,000**	**-**	**53,459**
Council Management Directorate						
Corporate Capital Contingency	9,393	2,514	-	-	-	**2,514**
ICT and Digital	13,754					
TOTAL Council Management Directorate	**23,147**	**2,514**	**-**	**-**	**-**	**2,514**
Places, Prosperity & Sustainability Directorate						
Bordesley Park Wheels	**7,555**					
Metro Centenary Square-ph2	**371**					
Former Erdington Baths Weatherproofing Grant	**1,205**					
Chamberlain Square Refurb	**29**					
Perry Barr Residential Scheme	**7,788**					
Council House Refurbishment	**117**					
TOTAL Places, Prosperity & Sustainability Directorate	**17,065**					

TOTAL PRUDENTIAL BORROWING - GENERAL FUND	**68,615**	**34,196**	**19,635**	**3,000**	**-**	**56,831**
ENTERPRISE ZONE						
Places, Prosperity & Sustainability Directorate - ENTERPRISE ZONE						
EZ - Cultural Action Area	457	227	239	479	-	**946**
HS2 Station Environment	4,235	4,252	10,455	4,349	-	**19,057**
Paradise Circus	7,192					
Typhoo Wharf Redevelopment	7,745					
WSM Enabling Works	828					
Digbeth Public Realm	15,395					
EZ Capitalised Interest	4,967	2,568	3,544	4,621	-	**10,733**
Places, Prosperity & Sustainability Directorate - ENTERPRISE ZONE TRANSPORT						
City Centre Active Travel Connections		-	4,000	-	-	**4,000**
One Station & Smallbrook Queensway		-	15,000	15,000	5,000	**35,000**
Digbeth Active Travel & Streets Programme		5,000	15,000	10,000	5,000	**35,000**
TOTAL PRUDENTIAL BORROWING - ENTERPRISE ZONE	**40,819**	**12,048**	**48,238**	**34,449**	**10,000**	**104,735**
HOUSING REVENUE ACCOUNT						
Housing Revenue Account	152,329	163,117	144,993	154,765	173,744	**636,619**
TOTAL PRUDENTIAL BORROWING - HRA	**152,329**	**163,117**	**144,993**	**154,765**	**173,744**	**636,619**
TOTAL PRUDENTIAL BORROWING	**261,764**	**209,361**	**212,866**	**192,214**	**183,744**	**798,186**

19 2025/26 Treasury Management Strategy and Policy

19.1 The 2025/26 Treasury Management Strategy (**Appendix 9**) takes account of the Council's current financial position and sets out its Treasury needs for the year and the interest rate outlook, in accordance with the Treasury Management Policy (**Appendix 9A**).

19.2 The Treasury Management Policy sets the overall framework and risk management controls which are used in carrying out the Council's borrowing, lending and other treasury activities.

19.3 The Treasury Management Strategy aims to minimise the cost of borrowing to the Council whilst balancing its security and liquidity risks.

19.4 Although borrowing for General Fund capital projects is restricted to the minimum, the Council's gross loan debt is forecast to increase in forthcoming years due to significant investments required for the Housing Revenue Account.

19.5 The Loan Debt forecast that flows from the Capital programme as set out in **Section 18** of this report is set out below and the required additional borrowing to meet that debt requirement:

Table 24 – Borrowing Requirements for 2025/26 to 2028/29

	2025/26 £'000	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**
Forecast General Fund gross loan debt	2,218,430	2,238,453	2,196,110	2,145,478
Forecast HRA gross loan debt	1,421,072	1,566,065	1,720,830	1,894,573
Forecast gross loan debt	**3,639,501**	**3,804,518**	**3,916,940**	**4,040,052**
Cash balance required	(100,000)	(100,000)	(100,000)	(100,000)
Forecast net loan debt	**3,539,501**	**3,704,518**	**3,816,940**	**3,940,052**
of which:				
Existing loans outstanding at year end	3,129,501	2,882,803	2,656,803	2,574,553
Cash balance required	(100,000)	(100,000)	(100,000)	(100,000)
Required new/ replacement loan balance (cumulative)	510,000	921,715	1,260,137	1,465,499
	3,539,501	**3,704,518**	**3,816,940**	**3,940,052**

19.6 Previously, the Council used a balanced borrowing strategy that maintained a proportion of short-term or variable rate loan debt with long-term or fixed rate borrowing in order to seek an appropriate balance between the risks of variable rate and fixed rate borrowing. However, within the context of the Improvement and Recovery Plan and the general availability of short-term loans, the Council is likely be restricted to longer term fixed rate loan debt to meet its borrowing requirements as part of this strategy. Any short-term loans available will be considered within the prudential limit for variable rate exposures.

19.7 Based on this Strategy, **Table 25** summarises, for the Council as a whole, the new long-term and short-term borrowing proposed to fund the new or replacement required borrowing each year:

Table 25 – Proposed Borrowing Strategy for 2025/26 to 2028/29

Cumulative new borrowing:	**2025/26 £'000**	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**
Long-term loans for the General Fund	110,000	350,000	490,000	490,000
Long-term loans for the HRA	350,000	510,000	680,000	880,000
Total long-term loans	**460,000**	**860,000**	**1,170,000**	**1,370,000**
Total short-term loans (General Fund and HRA)	50,000	61,715	90,137	95,499
New / replacement loan required	**510,000**	**921,715**	**1,260,137**	**1,465,499**

19.8 For its application for EFS, the Council is expected to raise capital receipts for the whole capitalisation direction, thereby eliminating the need to borrow. The conditions of EFS will be that any required borrowing must be obtained from the Public Works Loan Board (PWLB). In addition, the Council will need to make annual provisions for the repayment of any borrowed amounts as part of the capitalisation direction, in line with its MRP policy or further Government directions, if any.

19.9 The Treasury Management Strategy, Treasury Management Policy, Debt Repayment Policy, Prudential Indicators and Service and Commercial Investment Strategy are included in **Appendix 9 and 10** of this report.

20 Risks

20.1 The Council is monitoring a range of risks that may materialise as issues and lead to future financial pressures. At the time of writing this report, these are as set out below (20.2 to 20.7):

20.2 Directorate Specific Risks relevant to the 2024/25 Budget Setting Process:

a) Public Health Grant Exit Strategies – The Public Health Grant funds contractual agreements and Memoranda Of Understanding (MOU) to deliver schemes that support public health outcomes. There is a risk that funding may decrease over time, requiring the Council to explore alternative funding arrangements or develop exit strategies for the work currently supported by the grant. Future funding levels are uncertain and may fall below inflation, as has occurred in previous years. The service is also likely to face increased delivery costs for services provided by health partners. To address these challenges, a five-year forward plan is being developed to provide greater clarity on how these factors will impact the Public Health budget. While the Council will strive to make the most efficient and effective use of the Public Health Grant and regularly review the application of funds, any use of the grant outside mandated services must meet strict criteria. This includes the requirement for an MOU outlining how funds will be allocated and what outcomes are expected. The Office for Health Improvement and Disparities (OHID) will have oversight and retains the ability to challenge any use of funds it deems inappropriate.

b) Other Grant Exit Strategies – There may be other grants ending that will require an exit strategy. Work will continue to identify such grants so that the impact to the Council is established on the principle that there is no assumption of Council funding replacing such grants.

c) Temporary Accommodation – Within the City Housing Directorate, the primary uncertainty is the demand for temporary accommodation relative to the city's capacity and budgeted forecast. The base budget forecasts incorporate details from the Temporary Accommodation Strategy, which was approved by Cabinet in the previous financial year. However, current assessments indicate growing pressures on Temporary Accommodation provision, exceeding original forecasts. This demand will be continually monitored and reviewed as part of the budget-setting process for the 2025/26 financial year to ensure that resources are aligned with emerging needs.

d) Transition from Children's to Adults – The current transition for young people moving from Children's to Adults service is a challenging one. This period often involves substantial changes to the support a young person receives, whether transitioning from social care at 18 or from educational services at 25. Delays in decision-making and difficulties in timely planning for adulthood can result in young people not receiving the right help at the right time.

   An ambitious transformation programme is underway, bringing together all services involved in the journeys of children, young people, and adults through social care, education, and health systems. The project initially focuses on redesigning pathways for children, young people, and their families who require social care, health, and education, eventually transitioning into adult social care. This aims to ensure they achieve the best outcomes and can live independently with choice.

   This integrated approach provides a more personalised model of care, empowering children and young people to develop independence over time and lead fully inclusive lives. Additionally, a more joined-up system will address inefficiencies and deliver cross-directorate savings.

e) DSG Schools in Deficit – The Council is not permitted to use its own funds to lend money to schools, or it would be placing its own funds at risk if it were to do so, but there are an increasing number of schools that find themselves in a deficit position. Were any of these schools that are in deficit to decide to academise and leave the status of maintained school, then the Council could find itself in the position of having to bear the cost of such a deficit from its own reserves. A process to work with schools in deficit is being agreed between the School Improvement and Schools Finance teams and the Council plans to start working with deficit schools on the issue in the autumn term.

f) Adult Social Care – The most significant risk in Adult Social Care is the rising demand for care packages, driven by an ageing population, increasing complexity of needs, and inflationary pressures on care costs. This creates significant financial challenges in meeting statutory duties within the existing budget.

g) Children & Young People – The most significant risk within Children and Young People's services arises from pressures flagged by Birmingham Children's Trust (BCT) and the increasing complexity of children's care packages. Additionally, ongoing risks exist around rising home-to-school transport costs, which continue to place significant strain on the budget.

h) City Operations – As part of the 2024/25 savings programme, it was proposed that a £20m annual saving (comprising £12m in 2024/25 and additional £8m in 2025/26) could be made due to the Highways Private Finance Initiative (PFI) contract ceasing as a result of Government's decision in November 2023 to not support the project moving forward. The Council has been successful in its Judicial Review of Government's decision to cease the PFI project. Court has ruled that the decision was made unlawfully and has therefore been quashed. In the event that the PFI arrangement is terminated early, this will not only lead to a substantial reduction in highways expenditure but also as the PFI is unwound, the Council will be unable to capitalise substantial amounts of investment works which will lead to a revenue budget pressure which will require an ongoing solution.

   In 2018 the Council amended its Debt Redemption Policy in relation to Capital Expenditure under PFI contracts. The Council chose to spread the cost over the asset life, rather than expense capital expenditure immediately or over the contract life. This was allowable under the MRP regulations at the time. This adjustment has been part of the Councill's annual budget since 2018 and is dependant on annual capital expenditure being in line with the PFI operating model. Any reduction in this level of capital spend will impact the General Fund up to a maximum exposure of £35m.

i) Place, Prosperity and Sustainability – The major uncertainty relates to the rental income that the Council is able to achieve across its commercial property portfolio. This is continually reviewed, and future updates will be provided to Cabinet as part of quarterly budget monitoring.

j) Oracle – There is a risk that the Oracle programme overruns or that the ongoing cost is higher than the current forecast of £20m per annum. This risk not only relates to the financial impact of additional costs for delivery of the programme, but there would also be indirect costs relating to potential further service impacts from a failure of the current Oracle system or any future implementation.

k) Capital Receipts Generation – The scale of required capital receipts poses a significant risk, as the Council may struggle to achieve the necessary value without considering operational assets such as schools, parks, or highways. Selling these assets is not feasible due to their critical role in service delivery, creating a potential shortfall in receipts needed to support the budget and capital programme.

l) Review of Companies, Traded Services, Charities and Investments – The volume of companies, traded services, charities and investments the Council is involved with is not sustainable. The vast majority of these entities are not core to the Council's business and therefore take valuable resource and time away from critical issues. A lack of proper governance, oversight, and transparency around these entities presents a significant risk, particularly as we have limited visibility of their operations, financial risks, and potential demands on the Council's resources. Recent events have already demonstrated the potential for unexpected shocks, and without urgent action, there is a real risk that further unknown issues could emerge in the coming year.
Key areas of concern include governance frameworks, financial control over balance sheet, conflicts of interest, returns on investment, voting and appointment authority, and the processes for investment and divestment decisions. The absence of robust systems to monitor and manage these entities undermines the Council's ability to safeguard its interests and address risks proactively.

20.3 Approved Savings Programme for 2025/26

a) Non-delivery of the approved savings programme – the prior year programme, approved by City Council on 5 March 2024, required delivery of £149.8m in 2024/25.

£13.6m of this is no longer deliverable and the list of savings affected is included in **Section 11.9** above.

A further £10.254m of the target will also not be realised in 2024/25 due to timing issues and will slip into 2025/26. These savings are being mitigated in year through directorate underspends and will need to be monitored closely in 2025/26 to ensure they deliver the full target agreed. Savings facing slippage include:

- £1.260m - #193 Transformation of NAIS and Community Library Service
- £6.900m – Various transport related savings within the Children & Families Directorate
- £2.094 – Various City Operations directorate Savings.

Should these savings not materialise in 2025/26 it will present an additional budget pressure for the Council and thus they will be carefully monitored through the monthly governance and reporting process. These savings will be mitigated if not delivered in-year.

b) Cost of Transformation – it is likely that the cost of transforming the Council will be higher than the current monies set aside for the Improvement and Recovery Plan. Transforming the Council may also take longer than currently planned. It is imperative that detailed plans are put forward with forecast costs for the MTFP on likely costs of transformation to ensure the monies set aside are adequate.

c) Interdependencies – Due to the scale of change across the Council, there is a risk that the interdependences between programmes may cause unintended consequences. The significance of the Oracle Programme, Council-wide Target Operating Model (TOM), and Consolidation Programmes mean that there is a volume of change which may lead to additional financial impacts cause by delays of impacts from any one of these schemes.

20.4 Financial Planning Risks

a) Treasury Management –Treasury Management costs are significant to the Council's budget, the forecast for 2025/26, including the HRA, was £277m at March 2026. Although most of this cost is fixed based on historic debt levels and fixed interest rates, changes in the budget will arise due to new or replacement borrowings as well as debt repayments. This is particularly relevant for the HRA, which has substantial investment plans for its existing housing stock and is looking to increase borrowing significantly over the next few years. There is an inherent risk to Treasury Management as future interest rates will determine the costs of such borrowing. Due to the issuance of the Section 114 notices, the availability of borrowing to the Council has reduced and this has impacted on the rates the Council can obtain when borrowing.

a) Interest Rates – A one percentage point change in interest assumptions leads to an approximate £2.5m change in the annual budget (based on current forecast borrowing requirements).

b) Borrowing – The Council only borrows for long-term capital investment however it also does so in the short-term for day-to-day cash and liquidity management. The capital programme, as well as the timing and capital receipts and day-to-day cash outflows and inflows, will determine future treasury costs.

c) Pensions – At present the MTFP model assumes that the triennial valuation due in 2026/27 will remove the requirement of the Council to contribute the Secondary rate due to the Fund being in a surplus. In anticipation of a favourable valuation given the surplus in the pension position both locally and nationally, the Council has updated the MTFP to reflect reduced contributions from 2026/27. There is however a risk that the impact of the revaluation on the Council's contribution is materially different to current assumptions.

d) Inflation – The Council will continue to use the latest Bank of England forecasts to inform the inflation forecasts in the MTFP. These forecasts are subject to future change and budget forecasts will be regularly updated.

e) Litigation Cases – The Council has a number of open litigation cases, in which there is potential for a financial impact on the Council should the Council lose these cases. They will be provided for in line with accounting standards, however there is a risk of further financial impact.

f) Collection Fund – each year, as part of budget-setting, the Council needs to assess if there a surplus or a deficit on the Collection Fund (the ringfenced account into which the Council receives Council Tax and Business Rates income). If more income has been received than previously budgeted for, there is a surplus; less income received results in a deficit. Any surplus or deficit is charged to the Council's General Fund for the next financial year. For the 2025/26 year, the Council has engaged the support of LG Futures, a specialist consultancy, to carry out detailed forecasting. There is an inherent risk that this forecast may have variations to the actual values achieved, however this is being mitigated with the support of LG Futures. To quantify this risk, a 1% reduction in Council Tax collection rates will lead to a reduction in Council Tax income of £5-6m and a 1% reduction in Business Rates collection rates will also lead to a reduction in Business Rates income of £5-6m.

g) Future government funding – the Labour party manifesto included a commitment to 'give Councils multi-year funding settlements'. If implemented by the new Labour government, a multi-year settlement will give the Council greater certainty over the medium-term budget forecasts.

h) Regeneration projects – there are large risks around the current regeneration projects that are inflight. There is the possibility that there will be unforeseen costs, both revenue and capital, for these regeneration projects. The delivery of these of projects will need to be closely monitored to ensure costs are controlled and any overspends, or unforeseen revenue implications are mitigated early.

20.5 Exceptional Financial Support (EFS) risks

a) Funding Sufficiency – The main risk for the Council is that the EFS support agreed by central government will not be sufficient. The Council's EFS request for £1.255bn covered the overall budget gap for 2024/25, potential cost of redundancies and potential Equal Pay liabilities. If any of these areas increase in value, this could mean that the existing EFS package is not sufficient. The Council is already having to use some of the Contingency agreed as part of the EFS package to balance the 2025/26 budget.

b) Additional EFS Funding – As the principles of this MTFP state, as outlined in **Section 4**, no further EFS will be requested. So any additional increases in costs will need to be found from additional savings. This aligns with the expectations of Commissioner Led Intervention, that the Council will live within the envelope of capitalisation provided for the 2024/25 budget setting process.

c) Timeline to Mitigate Equal Pay Issues – This places a premium on work to manage potential Equal Pay liabilities being carried out on time. A strict timeline is required to resolve Equal Pay issues, not just open litigation, but also resolving the issues that are the root cause of potential Equal Pay liabilities.

20.6 Regeneration and Development Projects

a) Capital Projects – A number of current projects have highlighted issues with project management, appropriate use of funding streams and reserves and budget monitoring and reporting. There is a need for robust costings as well as ensuring adequate contingency is created with all of the risks below. The Council must ensure that remedial action is taken urgently to rescope the project as much as possible to mitigate any risks. The organisation needs to be clear that projects must stay within their cash limits and contingency is only to be used as a last resort.

b) Accountable Body Commitments – There are a number of major regeneration and development projects where the Council is the accountable body. This imposes significant risk, including financial and operational, as overspends on such project fall on the Council. The Council needs to be clear of the risks it is taking on with such projects, even if they are expected to be externally funded. The Council and its partners must realise that the Council can no longer be seen as the lender or funder of last resort.

20.7 Laws and Regulations Review

a) External Audit wrote to the Council in October 2024 regarding the statutory audit of 2020/21 and 2021/22 financial years. External Audit are aware of several suspected breaches of laws and regulations. There is a risk that the Council and External Audit have not identified all suspected breaches.

20.8 Rebuilding Reserves and Balances

a) Given the scope and nature of the risks outlined above, the Council must ensure its reserves and balances are at a level which will provide some security and cover should these materialise. Throughout the 2025/26 financial year, the Section 151 Officer will work with the relevant Directors to review these risks, and ensure the Council's reserves and balances position reflect any update on the likelihood and impact of each risk.

21 PROPOSAL AND REASONS FOR RECOMMENDATIONS

21.1 That the recommendations are endorsed to allow City Council to consider and approve a balanced budget for 2025/26, following the use of the EFS Contingency and Council Tax increase to 7.49%.

Other Options Considered

21.2 During this budget process, a range of options have been considered, particularly with regard to the proposed savings programme.

22 RISK MANAGEMENT

22.1 Creating this budget involved balancing risks, clarifying uncertainties, and mitigating potential impacts of volatility, these risks as set out in **Section 20**.

22.2 Assumptions made in this report have been examined for risks and variability in order to mitigate impacts, as far as is practicable. Estimates of expenditure and income have been made on a prudent basis, informed by previous experience, the latest available evidence in the current financial year, market forces and service intelligence. An assessment of, and arrangements for, the management of the Council's principal budget risks is set out in the Section 25 statement, presented separately to Cabinet at this meeting.

23 CONSULTATION

Internal

23.1 Relevant Cabinet Members, Directors and the City Solicitor have been consulted in the preparation of this report and the budget for the 2024/25 financial year.

23.2 The savings proposals have also been scrutinised by members in detail, as laid out in **Section 11** of this report.

23.3 The input from Scrutiny Committees into this budget process, and the response from the Council, is included as a separate report to this meeting.

23.4 Trade Union Consultation is underway as required by s188 of the Trade Union and Labour Relations (Consolidation) Act 1992, on potential redundancies, which it is envisaged may arise as a result of the proposed budget savings in this Report. This consultation sets out the proposed employee reductions that are anticipated following the downsizing (or in some cases ceasing) of services and teams.

23.5 It is proposed to mitigate against compulsory redundancies, by agreeing a Targeted Voluntary Redundancy scheme with the Trade Unions. The Targeted Voluntary Redundancy scheme will be made available to those employees where it is anticipated that services will be downsized (or in some cases cease). Should further redundancies be required, then the Council may carry out a compulsory redundancy scheme, whereby each directorate will provide a business case outlining the posts that are affected taking into account those posts that have already been deleted through the Targeted Voluntary Redundancy scheme.

External

23.6 Section 65 of the Local Government Finance Act 1992 requires the Council each financial year to consult persons or bodies representative of business ratepayers about expenditure proposals.

23.7 The Council must make available the information described in the Non-Domestic Ratepayers (Consultation) Regulations 1992/3171, including:

a) Details of proposals for expenditure in the financial year to which the consultation relates;

b) Estimates of expenditure in the preceding financing year; and

c) Particulars of significant changes in the level of proposed expenditure between the two years.

23.8 More than 35,000 businesses were invited to the business ratepayer meeting held on 23 January 2025. Of those invited, 228 businesses agreed to attend and over 80 attended including The Soho Road Business Improvement District (BID), Provident Housing and businesses from across Birmingham. Questions were asked about support for small businesses and questions about what assets the Council still own that might be in due to be sold would be released to the public.

23.9 Other specific consultation exercises have and will take place where the Council is subject to a duty to consult, and in limited circumstances where the Council, although it is not subject to any duty to do so, has chosen to do so.

24 MEMBER ENGAGEMENT

Ward Councillor(s)

24.1 Not Applicable

Overview and Scrutiny

24.2 The input from Scrutiny Committees into this budget process, and the proposed responses from the Cabinet, have been included in **Appendices 15 and 16**.

Other

24.3 Not Applicable

25 IMPACT AND IMPLICATIONS

Finance and Best Value

25.1 The financial implications of the budget for the 2025/26 financial year are set out in this report.

Legal

25.2 Local authorities are subject to statutory duties to ensure that their financial management is adequate and effective and that they have a sound system of internal control and management of financial risk. This report sets out the basis upon which a recommendation will be made for the adoption of a lawful budget and the basis for the level of the Council Tax for 2025/26.

25.3 Section 25 of the Local Government Act 2003 imposes a duty on an Authority's Chief Finance Officer to make a report to the Authority for it to take into account when it is considering its budget and funding for the forthcoming year. Members will find the Section 25 Report of the Section 151 Officer on the agenda for this meeting. This outlines the Council's current and anticipated financial circumstances, including matters relating to the General Fund budget, the HRA, the capital programme and borrowing and expenditure control.

25.4 Section 26 of the Act gives the Secretary of State power to set a minimum level of reserves for which an authority must provide in setting its budget. There is an ongoing need to prepare for contingencies including maintaining sound risk management and a level of reserves which enables the authority to be prepared to deal with risks, contingencies, and its future strategic vision.

25.5 The Local Government Finance Act 1992 requires local authorities to balance their budget. The setting of the budget and Council Tax by Members involves their consideration of choices as to spending. No realistic options should be dismissed without proper consideration and Members must also consider their fiduciary duty to the Council taxpayers of Birmingham.

25.6 Where the Council is subject to a mandatory duty to provide a service, it would not be lawful to fail to discharge that duty. Where there is discretion as to how a discretionary power is to be exercised or as to the manner in which a mandatory duty is to be discharged, that discretion must be exercised reasonably. There will need to be appropriate consultation where the Council is subject to a duty to consult, as well as compliance with the public sector equality duty.

25.7 Under the constitutional arrangements, the setting of the Council budget is a matter for the Council, having considered recommendations made by the Cabinet.

25.8 Before the final recommendations are made to the Council, the Finance Overview and Scrutiny Committee must have been given the opportunity to scrutinise these proposals and the Cabinet should take into account its comments when making those recommendations.

25.9 For the 2025/26 financial year, the Council requires Exceptional Financial Support from Central Government to enable a balanced budget to be set. This will need to come in a letter from the Secretary of State for Levelling Up, Housing and Communities in advance of the City Council meeting on 25 March 2025, to enable a vote on a balanced budget for the 2025/26 financial year.

Equalities

25.10 The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding.

25.11 After more than a decade of significant budget savings, it is difficult to make new savings without any impact on residents. There will inevitably be some impact on particular groups, including those with protected characteristics as defined by the Equality Act. The Council is not legally obligated to reject savings with negative impacts on any particular groups but must consider carefully and with rigour the impact of its proposals on the Public Sector Equality Duty, take a reasonable and proportionate view about the overall impact on particular groups and seek to mitigate negative impacts where possible.

25.12 The need for an individual Equality Impact Assessments (EQIA) has been considered for all the budget savings proposals and where assessments are deemed necessary these are set out in full at: https://www.birmingham.gov.uk/EqualityImpactAssessments. These demonstrate that the Council has met its duties under the Equality Act 2010 and has taken account of its duties under the Child Poverty Act 2010.

25.13 A summary corporate EIA assessment of the budget proposals was completed on 31 January 2025 and is attached as **Appendix 12 and 13**. This report is based on data extracted from the individual EIAs completed by Directorates uploaded to the Council's SharePoint site as of February 2025. This document is only a summary and does not replace the individual specific EIAs, which decision-makers must read before making their decision. https://www.birmingham.gov.uk/EqualityImpactAssessments.

25.14 Whilst individual EIAs are a critical tool in assessing the impact of budget proposals on specific groups, they do not provide a complete picture of the cumulative socio-economic impacts of budget measures on communities across Birmingham. To address this, the Council will adopt a more robust approach to monitoring and mitigating these broader impacts throughout the year. This will include regular updates to Cabinet and the CLT on the cumulative effects of budget decisions, with a particular focus on ensuring that disadvantaged and vulnerable groups are not disproportionately affected.

25.15 As part of this commitment, the Council will establish a framework for ongoing monitoring and evaluation, drawing on data from individual EIAs, feedback from residents, and key performance indicators linked to service delivery. This will allow decision-makers to identify emerging risks and inequalities early and to take corrective action where necessary. This proactive approach underscores the Council's commitment to advancing equality, promoting inclusion, and minimising adverse socio-economic impacts across the city.

Procurement

25.16 The implementation of proposals set out in this draft budget report will need to be managed in accordance with the appropriate procurement governance arrangements.

People Services

25.17 The impact of the new savings proposals will result in staff redundancies. The Council will take all necessary steps to minimise the number of redundancies. The costs of these redundancies forms part of the request for Exceptional Financial Support from MHCLG.

Climate Change, Nature and Net Zero

25.18 Any climate change, nature and net zero carbon implications arising from the recommendations in this report will be included in the individual and summary EIAs.

Corporate Parenting

25.19 Any implications or opportunities in relation to the Corporate Parenting responsibility arising from the recommendations in this report will be included in the individual and summary EIAs.

Other

25.20 There are no other implications arising from the recommendations in this report.

26 APPENDICES

26.1 Appendix 1 – Savings Proposed for the MTFP

26.2 Appendix 2 – 2025/26 General Fund Revenue Budgets – overall and by Directorate

26.3 Appendix 3 – Council Tax Requirements

26.4 Appendix 4 – Reserves & Balances Policy

26.5 Appendix 5 – Grants (summary of government income from grants)

26.6 Appendix 6 – Housing Revenue Account

26.7 Appendix 7 – Schools & Dedicated Schools Grant

26.8 Appendix 8 – Capital Strategy

26.9 Appendix 9 – Treasury Management Strategy, including:

a) Appendix 9A – Treasury Management Policy

b) Appendix 9B – Debt Repayment Policy

c) Appendix 9C – Prudential Indicators

26.10 Appendix 10 – Service & Commercial Investment Strategy

26.11 Appendix 11 – Fees and Charges

26.12 Appendix 12 – Summary Corporate Equalities Impact Assessment

26.13 Appendix 13 – Review of ASC Care Packages – Further Equalities Impact Analysis

26.14 Appendix 14 – Draft Report under Section 25 of the Local Government Act 2003

26.15 Appendix 15 – Recommendations of Budget Scrutiny Task and Finish Group

26.16 Appendix 16 – Budget Scrutiny Task and Finish Group Recommendations - Response

26.17 Appendix 17 – EFS letter to MHCLG

26.18 Appendix 18 – Directorate Transformation Updates

27 BACKGROUND PAPERS

27.1 Council Tax Tax-base for 2025/26, approved by Cabinet on 21 January 2025

27.2 Section 151 Officer Update on the Financial Position of the Council to Cabinet on 21 January 2025

27.3 Section 151 Officer Update on the Financial Position of the Council to Cabinet on 12 November 2024

27.4 Section 151 Officer Update on the Financial Position of the Council to Cabinet on 10 September 2024

27.5 Section 151 Officer Update on the Financial Position of the Council to Cabinet on 23 July 2024

27.6 Section 151 Officer Update on the Financial Position of the Council to Cabinet on 25 June 2024

27.7 Section 151 Officer Update on the Financial Position of the Council to Cabinet on 14 May 2024

27.8 Linked to the Fees & Charges Appendix 11:

a) Council's Fees & Charges guidance – Fees and Charges guidance | Birmingham City Council Portal

b) Review of Licensing and Public Protection Fees and Charges 2025/26 – 15 January 2025 LPPCC 15 January 2025 - Reports